

# **THAILAND IN EAST ASIA AND PACIFIC CONTEXT**

**Professor Dr. Medhi Krongkaew**

Institute of East Asian Studies  
under the patronage of Her Royal Highness Princess  
Mahachakri Sirindhorn, Thammasat University

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ISBN 978-616-8139-55-4

Published by Institute of East Asian Studies  
under the patronage of Her Royal Highness Princess  
Mahachakri Sirindhorn,  
Thammasat University  
Tel. 0-2564-5000 to 3 Fax: 0-2564-4888  
<http://www.asia.tu.ac.th>

Printed at Thammasat Printing House, 2018  
TEL: 0-2564-3104 to 6 FAX: 0-2564-3119  
<http://www.thammasatprintinghouse.com/>

Price 250 Baht

## **Preface**

This volume is an outcome of a ten-year experience, between 1996 and 2005, of Professor Dr. Medhi Krongkaew who actively engaged in various activities related to East Asian and Pacific affairs. During this period, Thailand in 1997 was the point of departure for a devastating financial crisis which rapidly spread to other countries in the region. Thailand suffered its first major international economic crisis which resulted in concerted financial assistance from Asian and Pacific governments and organizations, such as Japan, and the International Monetary Fund (IMF).

Professor Dr. Medhi earned his reputation from various remarkable positions before and during this historic period. He served as the Director of the Institute of East Asian Studies (IEAS), the Founding Director of the APEC Study Center in Thailand, Thammasat University, the Chairperson of APEC SOM (Senior Official Meeting) Subcommittee on Economic and Technical Cooperation (ECOTECH) in the APEC organization, the first Chairperson of Community-Building Forum under the Pacific Economic Cooperation Council (PECC). Apparently, Professor Dr. Medhi's experiences during this particular decade considerably helped shape numerous visions and perspectives as to what should be the roles of Thailand in East Asia and the Pacific how Thailand should act and react as a member of this international community, and how Thailand should exert its positions and influence on the matters related to APEC, PECC, and ASEAN.

Moreover, his contributions for Thailand's stance and operational structures towards bilateral cooperation through Free Trade Agreements (FTAs) as well as multilateral cooperation through the World Trade Organization (WTO) were commendable. Furthermore, Professor Dr. Medhi envisaged a present-day Thailand and attempted to compare its socio-economic characteristics with other comparable countries in East and Southeast Asian. Several socio-economic, political, and

juridical indicators were thus selected to reflect and represent the standings of Thailand comparatively.

The Institute of East Asian Studies is highly honored to have been able to publish this book. We hope it will be useful for academicians, students and those who are interested in these issues.

Prof. Dr. Kitti Prasirtsuk  
Director, Institute of East Asian Studies,  
Thammasat University

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# **1. THE ROLE OF JAPAN AND THE US IN THE THAI ECONOMIC CRISIS: CURRENT INVOLVEMENTS AND FUTURE PROSPECTS\***

**By Medhi Krongkaew\*\***

## **1. Introduction**

The recent economic crisis in Thailand and other countries in East Asia had pitched Japan and the US in a somewhat different light with regards to their involvements in the causes, consequences and corrections of the crisis in these countries. While neither Japan nor the US was implicated in the exact cause, or causes, of the crisis, the US might be looked upon as the originator the so-called 'Washington Consensus', the US-sponsored policy that forces most of its trading partners to adopt globalisation, deregulation, privatisation, or otherwise open up their respective economies for free trade and investment, while Japan might be criticised for not engaging in a fast enough economic reform, therefore could not act as economic leader for East Asia.

As the title of this conference is the Role of the United States in the Asia-Pacific: Implications for the US -Japan Relations on the Eve of the 21<sup>st</sup> Century, it is obvious that the main emphasis is on future relationship between these two countries in the Asia-Pacific region and their relationship with other countries in the region. The inclusion of five ASEAN country studies or country papers is aimed to enhance the above

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\* The earlier version of this article was presented at the International Conference on the Role of the United States in the Asia-Pacific: Implications for U.S.-Japan Relations on the Eve of the 21<sup>st</sup> Century, organised by the Center for Strategic and International Studies, Bangkok, 17-18 May 1999

\*\*Director, Institute of East Asian Studies, Thammasat University Rangsit Campus, Pathum Thani 12121. I would like to thank Ms. Pintima Lertsomboon, Mr. Wichian Intasi, and Ms. Nattaporn Boonprapa for their excellent research assistance.

main emphasis. The analysis of the economic and financial development in Thailand which is a part of this paper, is, therefore, not in itself the main focus of the discussion but a necessary background that leads or feeds into a larger discussion on the future prospects for the US and Japanese involvement in the Asia-Pacific region.

Why the reference to these five ASEAN countries is important? First of all these five countries are, as a whole, one of the largest trading partners of both the US and Japan, and despite the current economic crisis, all have the potentials to recover from this crisis and return to robust growth again in the near future. The economic stakes for both the US and Japan are high in these countries, and the success or failure of economic management in these countries could have serious repercussions upon the two economic superpowers. Thailand was given a starting position in the discussion because this is where the current economic crisis had started. What have transpired in this country in the last two years can tell a good story, and give a good lesson, on how the crisis was brought about, how the crisis is being solved, what can be done to avoid similar crisis in the future, and what implications it would have on the future relationship between Thailand and the US and Japan.

Section 1 the major purpose of this paper is to look at the economic and financial development of Thailand in general, and the causes and consequences of its economic crisis in particular, and to assess the present and future roles of the US and Japan in Thailand's economic development and management. Section 2 begins by describing the development of the Thai economy in some historical perspective, especially the part which reflects strong influences of the US and Japan in its development policies. Section 3 concentrates on current economic situations and current economic crisis with special emphasis on the origin and the development of the crisis. In Section 4 the role and involvement of the US and Japan in the economic crisis in Thailand will be discussed. This section is concerned with short-term measures; it will specifically suggest a list of 5 actions for 1999-2000 that the US and Japan should take to assist the ailing Thai economy (and other ailing Asian economies as well).



In Section 5 a list of more long-term measures (for 2000-2005) will be discussed. Finally, Section 6 summarises and concludes.

## **2. Thai Economic Development in Historical Perspectives: Influence of the US and Japan**

The modern economic development of Thailand is said to have started in 1961 with the launch of its first national economic development plan. Notice that early 1960s were also the period of some significant political changes that had repercussions on future economic developments of these countries. Examples of these changes included the coups in Burma and South Korea in 1962, the separation of Singapore from the Federation of Malaysia and the assumption of power by General Suharto of Indonesia in 1965. This first economic plan for Thailand could be rightly called a US-inspired plan because it was drafted from the recommendations of the World Bank Mission that came to Thailand in the late 1950s and reflected strong American thinking at the time. The government would rely upon the private sector to provide major investments in the economy, with the government providing basic infrastructure and setting up necessary institutions for modern economic management. The Board of Investment was established to promote such investments from inside as well as from outside the country. A national planning board which was set up to draw this first plan was given increased power to assess and approve major government spending programs and projects, the power which the NESDB still holds today, and the Budget Bureau was created along the line of the Office of Management and Budget in the US government to give added importance to the power to the prime minister. Various economic and military assistance from the US were given generously in an attempt by the US to show that domino effects did not apply in the case of Thailand despite the spread of communism in countries around Thailand. Also very important was a large number of scholarships and fellowships that the US government and other US organizations had given to Thai students to study in the

US. Many of these US-trained students are now running the country.<sup>1</sup>

It will not be too far from the truth to say that the first national economic development plan of Thailand had set the trend for the economic development of the country in the following 38 years, and that trend was the reliance upon capitalistic market mechanism or market forces as a means to develop the economy. Although the role of the Thai government in the early phases of economic development could be described as interventionist rather than market-compliant (such as the use of tariff protection and other government control measures), this was necessary to enable local companies or institutions to become strong enough to compete with foreign competitors later. Soon the import-substitution phase of industrialisation gave way to export promotion and new manufacturing activities that change the traditional structure of Thai exports completely. Thailand was lucky to have a strong and productive agricultural sector which had provided not just cheap food for its growing industrial workers, but also surplus food and other agricultural products for export, and manpower to work in the factories. With open market approach to economic development policy, the country began to industrialise, and the value of manufacturing products and exports began to exceed those of agriculture in the early 1980s, effectively pushed Thailand into the league of newly industrialised economies (NIEs).<sup>2</sup>

Japan was not less important to Thailand in its formative years of economic development. Japan was, and still is, the largest country to provide foreign direct investment (FDI) in Thailand with the US maintaining the second or third position throughout these almost four decades of economic development. Japanese companies were

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<sup>1</sup> For an excellent account on the bilateral relationship between the US and Thailand since the postwar period to the early 1990, see Robert J. Muscat (1992), *Thailand and the United States*, New York: Columbia University Press.

<sup>2</sup> For a comprehensive discussion on the industrialisation of Thai economy see, for example, Medhi Krongkaew (ed.), *Thailand's Industrialisation and Its Consequences*, New York: St. Martin's Press, 1995.

involved in investing and producing for domestic consumption first, then exporting back to Japan, and now exporting to the rest of the world. The Japan External Trade Organization (JETRO) Bangkok Office had reported that, in 1954 when the Japanese Chamber of Commerce was established in Bangkok, there were 30 Japanese companies registered as members. In 1995 the number had increased to 1,160, the largest among all Japanese Chambers of Commerce outside Japan. From 1960 to 1998, Japan had invested about 108.3 billion baht in Thailand or about 41 per cent of the total FDI that Thailand had received.<sup>3</sup>

The first wave of Japanese FDI came to Thailand even before the launch of the First Plan but accelerated in the early 1960s. The areas in which the first batch of Japanese FDI were engaged in included textile industries and household consumer products. Then the areas of interest expanded into electrical appliances, motor cycle and automotive industries, and agricultural machineries. The second wave of Japanese FDI came after the 1985 Plaza Accord which saw the value of the Japanese yen greatly appreciated and forced more Japanese firms to relocate their operations overseas, and Thailand was the first ASEAN country to receive this second wave of FDI. The spread of FDI to other countries in Southeast Asian region necessarily affected the concentration of Japanese FDI in the first half of 1990s. However, the FDI from Japan had started to pick up again in 1996 and 1997, just as the country was about to plunge into economic crisis.<sup>4</sup>

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<sup>3</sup> Speech by Mr. Kuwata Hajime, President of JETRO Bangkok Office given at the 15<sup>th</sup> Thailand-Japan Joint Trade and Economic Committee Meeting, 23 February 1999. Mr. Kuwata had also said that in that respect, Thailand was one of the most important countries for the Japanese economy, not only in the Asian region, but also in the world.

<sup>4</sup> For an account on Japanese direct investment in Thailand see, for example, Medhi Krongkaew (1999), 'Japanese Direct Investment in Thailand', in the Japanese Studies Center (1999), *Evaluating the Japanese Participation in the Thai Economy*, Bangkok: Institute of East Asian Studies, Thammasat University, 1999, pp. 21-50.

### 3. Current Economic Conditions: Causes and Consequences of the Crisis

On the eve of the flotation of the baht on July 2, 1997, signaling the onset of the Tom Yum Kung Disease which later spread throughout East Asia, the fundamental economic conditions of Thailand must still be considered satisfactory despite several threatening economic indicators (see below).<sup>5</sup> More than 30 years of economic transformation from agricultural to industrial development basically through private investments and open market mechanisms and decision making had brought Thailand to the status of a middle income country with its per capital GNP of USD2,800 in 1997 or ranked 50<sup>th</sup> among the 133 countries studied by the World Bank.<sup>6</sup> The industrialisation of Thailand was quite evident, as the share of agriculture and industry and services in GDP had changed from 40:18:42 in 1960 to 11:40:49 in 1997. The outward-orientation of the Thai economy was also evident, as the total value of trade (exports plus imports) amounted to almost 100 per cent of GDP in 1997. The fiscal position of the Thai government at the beginning of 1997 was quite strong, enjoying a fiscal surplus equivalent to about 2.3 per cent of GDP. The other social and economic indicators also look good for Thailand. The literacy rate was 94 per cent in 1995 (compared to 78 per cent in 1970), and the life expectancy at birth was 69.5 years (compared to 52.3 years in 1960).<sup>7</sup> But even these strong fundamental economic conditions could not hold the economy together. The economic collapse came after the Thai monetary authority could no longer uphold the baht against repeated speculative attacks in foreign exchange markets and had to let go its fixed parity to the US dollar. The crisis began.

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<sup>5</sup> For a comprehensive study on the Thai economy before the 1997 crisis, see Medhi Krongkaew (compiler), 'Before the Fall: the State and Prospects of the Thai Economy Before the 1997 Collapse', collection of papers presented at the 5<sup>th</sup> Convention of the East Asian Economic Association (EAEA), held in Bangkok, 26-27 October 1996.

<sup>6</sup> World Bank, *World Development Report 1998/99*.

<sup>7</sup> UNDP, *Human Development Report 1998*, p. 148.

### 3.1 Causes of the Crisis

Literature abounds which recounts and analyses the causes of the Thai crisis.<sup>8</sup> We do not need to dwell too long here but to list 6 important factors that had brought about the downfall of the Thai economy. These 6 factors are:

#### (a) Financial sector mismanagement

Many banks and finance companies lent badly and much of these loans were spent in the non-productive property and stock markets. This lending was possible because money from foreign sources was abundant and cheap. The existing state philosophy to protect public financial institution at all costs created grave moral hazard among these bank and finance company managers. Even when irregularities by these managers were discovered, they were not dealt with resolutely. Enormous amount of funds was wasted through attempts to bail out these failed banks and finance companies.

#### (b) Current account deficit (CAD)

Thailand had spent beyond its means; it had to borrow other countries' savings to finance its investment and consumption. This overspending had become quite chronic and had reached the level that was thought unsustainable (over 8 per cent of GDP in mid-1997). This had created uncertainty and doubt about the ability of the Thai monetary authority to maintain the fixed exchange rate of the baht against the US dollar. Speculative attacks against the baht began.

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<sup>8</sup> See, for example, Medhi Krongkaew, 'Three Pieces on Thai Economic Crisis' in East, journal of the Japanese Studies Centre, Institute of East Asian Studies, Thammasat University, September 1998; Peter G. Warr, 'Thailand', a chapter in Ross McLeod and Ross Garnaut (eds.), *East Asia in Crisis: from being a miracle to needing one?* London and New York: Routledge, 1998; and Bhanupong Nidhiprabha, 'Economic Crisis and the Debt-Deflation Episode in Thailand', in H. W. Arndt and Hal Hill (eds.), *Southeast Asia's Economic Crisis: Origin, Lessons, and the Way Forward*, Singapore: Institute of Southeast Asian Studies, 1999, pp. 67-80.

**(c) High domestic interest rate and uncontrolled capital inflows**

High interest rates in the domestic market (and low interest rates in overseas markets) had induced uncontrollable inflows of foreign capital. Excess inflow of foreign capital also put pressure the local currency to appreciate, which could hurt its export performance. Although the monetary authorities could sterilise or neutralise the adverse effects of capital inflows, this sterilisation or neutralisation policy may not always work. The hidden danger of easy inflow is that it can also lead to easy outflow with devastating effects if the inflow is used unwisely.

**(d) The rigidity of exchange rate**

Thailand had attempted to practise the so-called impossible trinity, that is fixed exchange rate, freedom from capital control, and freedom from interest rate control. The practice of fixed exchange rate had served Thailand well in providing stability in foreign trade and investment, and most Thai governments were normally afraid of devaluing the baht. So, the fixed exchange rate was kept on. During 1997 when the US dollar had appreciated, the baht had become overvalued. Expectation of a baht devaluation became a question of when, not if or whether, it would take place.

**(e) Lack of Economic Leadership from Political Leaders**

Throughout the period leading to the flotation of the baht, the political leaders of the country (the finance minister and the prime minister) were kept out of the decisions concerning the use of reserves to defend the baht. The existing system did not demand close supervision or consultation of top economic leaders of the country. Only when most of the foreign reserves were gone, were these economic leaders informed about the situation, which was already too late.

### **(f) The decline in export performance**

The factor that effectively triggered failure of the defence of the baht was probably the poor export performance in 1996 and the first half of 1997. With high current-account deficit, this poor export performance became the last straw that broke the back of Thai economy. There were several reasons for this poor export performance. The increase in the costs of Thai exports eroded the price competitiveness that Thailand had over other competitors, especially China. The slowdown in world demand towards Thai exports were also a main factor. The overvalued baht was another.

## **3.2 Consequences of the Crisis**

What had happened after the flotation of the baht? A lot. The baht started to fall rapidly, reaching the bottom of about 55 baht per one US dollar around the end of January 1998. The closure of almost all finance companies froze a large portion of credit availability. Many companies, large and small, suffered exchange losses. Many companies and factories closed down or retrenched their workers. The impacts on various economic sectors could be briefly described as follow:

### **(a) On Production**

The crisis had brought on credit crunch that slowed down or stopped numerous manufacturing productions. Of all the 8 groups of industrial production, namely food, beverages, tobacco, construction materials, automotive, textile, petroleum products, and others, only beverage and textile sectors had shown consistent positive trends of industrial growth and expansion during the crisis. But this was not enough to help buckle the downward trends of overall manufacturing activities. The slowdown in manufacturing activities was most severe in March 1998 when the seasonally adjusted manufacturing index reached 89.5 based on the 1985 value of 100. In terms of manufacturing index without seasonal adjustment the figure for March 1998 was minus 21.3, confirming the lowest manufacturing activities. The seasonally adjusted

manufacturing index had gone over 100 in December 1998 with the index without seasonal adjustment becoming positive in January 1999 and remaining positive two months thereafter. It appears that the worst period in manufacturing activities is now over.

**(b) On Price**

As expected, the high depreciation of the baht gave rise to inflation, but because of the contraction of the economy was so severe, the price increase was never very large. The monetary policy to control money supply could also have some depressing effect on the price increase. The highest price increase was experienced in June 1998 when the consumer-price index (CPI) reached 10.7 per cent. Then it began to fall steadily. In March 1999, the CPI was only 1.9 per cent. Price stability in Thailand had helped most people from suffering as a result of inflation.

**(c) On Trade**

As a result of the floating and subsequent depreciation of the baht, the imports had become much more expensive to the Thai people so that the demand for these imports fell as early as August 1997. With exports continued to grow in volume terms (though not in US dollar value terms because the rate of currency depreciation was very high), the trade balance began to show surpluses starting in September 1997. For most of 1998, the current account surplus was over 1 billion US dollars. This level of surplus has continued into 1999 as well.

**(d) On Investment**

Along with the slowdown in manufacturing activities, the overall private investment had shown the same trend. The rate of change of private investment index started to get into the negative in October 1997, three months after the contraction in the manufacturing activities. This index started to slide continuously downward as the recession deepened, reaching the highest negative growth rate of minus 23.6 per cent in December 1998, then it began to improve. It is possible to interpret this



phenomenon as the end of the contraction in private investment. With the positive growth in private investment, the economy should start to show some positive growth toward the end of the year.

### **(e) On Employment**

That the crisis has caused increased unemployment in the economy is beyond any doubt, but the incidence and the rate of unemployment differ from one sector to another. The figure of between 1.5 to 2 million unemployed workers are often used to show the size of unemployment in Thailand at time of crisis. A study by Nanak Kakwani gave a new figure which takes into account the seasonal effect of employment and had shown that the unemployed persons as a result of economic crisis numbered about 810,000, divided into 510,000 males and 300,000 females.<sup>9</sup> This is much lower than 1.5 to 2 million unemployed quoted above. Also while this result has shown the unemployment to be quite serious, and that the crisis had also led to a decline in total employment, the effect of crisis on total employment was statistically insignificant. This could mean that the nature of the crisis was cyclical and not structural. The study by Kakwani also showed that the contribution of economic crisis to unemployment rate by different sector varies from sector to sector. The crisis had hit the construction sector the hardest, then the mining and manufacturing sectors. It is interesting to note that the services sector and the agricultural sectors were the two sectors least affected by the crisis. This is intuitively convincing as the agricultural sector is very large and agricultural production and exports have in fact benefited from depreciated local currency. So, it can absorb unemployed workers from other sectors in the cities. The situation is similar with regards to the services sector.

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<sup>9</sup> See Nanak Kakwani, 'Impact of Economic Crisis on the Standard of Living in Thailand', Newsletter of the Development Evaluation Division, NESDB, vol. 2, no. 4, October 1998.

#### **4. Crisis Corrections: Short-Term Involvement of the US and Japan**

When Thailand turned to Japan and the IMF for help after the meltdown of its currency in July 1997, few had suspected that the crisis would be very severe. At the time of the emergency loan agreements in early August 1997, the IMF projected that the GDP growth rate of Thailand in 1997 would be around 2-2.5 per cent. Three months later it had to adjust the GDP growth figure downward to 0.6 per cent and finally to -0.4 per cent at the end of 1997. The GDP growth estimate for 1998 was even more dismal at -3 to -3.5 per cent, attesting to the much-worse-than-expected economic crisis. Eventually the economy had hit the bottom at the end of 1998 with the growth rate of -8 per cent.

This worsening crisis had cast doubt over the suitability of the IMF package. While the IMF is well known for its conditionalities that include devaluation of generally overvalued currency, reduction in government spending and increase in taxes, reduction in the rate of monetary expansion to control inflation, abolition of price controls and subsidies, and privatisation of public enterprises, many had argued that these general conditionalities were not suitable for Thailand where the fiscal balance was in surplus, inflation under control, and privatisation of public enterprises already an on-going activity. Should the government spend more, rather than less, to stimulate the depressed economy?

The IMF had asked the Thai government to spend less to start with. As it is now well known, this was a bad decision as the contraction in the private economy got worse with this drastic cut in public spending. However, the IMF had some reasons for making such decision. The losses from the bailout of the commercial banks and finance companies would require the government to use enormous amount of public funds to pay back to the Financial Institutions Development Fund (FIDF) which provided the bailout money in the first place. The government needed all the public savings it could get, and that included the increase of the Value-Added Tax (VAT) from 7 to 10 per cent. This latter measure was also another bad idea because it had caused further

contraction, created tax evasion, and hurt the majority of workers and other fixed income and self-employed people.

Other than these two fiscal measures, the other measures were followed by the Thai authority with a better result. First of all, the currency was already floated (devalued), so this part of conditionalities was met. Next, the mismanagement of the financial sector which was the heart of the problems was tackled immediately and forcefully. Through special legal power, the Thai monetary authority suspended more than half of the finance companies and eventually seized control of almost all of them. A special institution called the Financial Sector Restructuring Authority (FRA) was established to auction off the assets of these failed financial institutions to pay back the debts to the government. The Bank of Thailand also ordered the remaining financial institutions to increase their capital bases, and establish more stringent controls over their loans. In order to help them recapitalise their capital bases, the majority control of foreign financial institutions was allowed. The government also provided public funding for those banks who were having problems with the recapitalisation requirement and would like the government to help in exchange for some public control on the management and operation of those banks. These stringent recapitalisation plans by the Thai government were often criticised for being too stringent, but the government was quite adamant in its intention to enforce these accepted international standards for the future of Thai banking institutions. At the end of April 1999, almost two years after the crisis, more than 60 per cent of the recapitalisation requirements of the Thai banking institutions have been reached, and the remaining task could be achieved much more quickly from now.

On monetary policy, the Bank of Thailand has kept a watchful eye over the fluctuation in the exchange rate. When the baht is weak in the exchange market, domestic interest rate will be kept high to help stabilise it, but when the baht becomes stronger and more stable, this high domestic interest rate would be reduced. Domestic money supply was also under close scrutiny by the Bank of Thailand so that the

appropriate rate of monetary expansion is maintained to reduce the pressure of inflation. The government had succeeded in cutting its budget to the point that a fiscal surplus for the fiscal year 1997 was achieved, but later the IMF had agreed to allow larger and larger fiscal deficits so that the public sector could spearhead the economic recovery and to help provide social assistance to the public (social safety net and social investment programs)..

Perhaps one earlier good news was the good performance in the external sector where exports had increased while imports had plummeted. The positive change in the external sector was so quick and drastic that the current account had turned into surplus within a few months after the crisis broke. From October 1997 onward the current account of Thailand remains in surplus. At the end of April 1999, this surplus in the balance of current account amounted to some 2.6 per cent of GDP. This had positive effects upon the external confidence on the Thai economy as shown by the continued improvement in the exchange rate of the baht since February 1998. With the government going all out to improve the competitiveness of Thai exports and increase its volume and value, it had hoped to see further stabilisation in the exchange market and the reverse flows of capital into Thailand soon.

Finally, the government had stepped up the privatisation of several public enterprises. More than the benefits from increased revenues for the government for such efforts, the government actually saw a long-term benefit from more efficient resource allocation from this privatisation move, which could translate into more efficient economic production. Not to forget the less well-off in the economy who had suffered from this economic downturn, the government decided to borrow some money from the World Bank to provide safety nets for the retrenched industrial workers and the people in the countryside.

It was earlier expected that the economy would bottom out before the end of 1998, and earlier signs in both the domestic sector (low inflation rate, falling interest rate) and the external sector (stable exchange rate and slowdown in capital outflow) but this was not

to be the case. To succeed in stimulating the economy quickly, the commercial banks must be able to start lending quickly. At first these banks were not able to do so because of tight money situation. But when the liquidity was eased and the interest rate was brought down, commercial bank lending was still slow. Most local banks were burdened with large numbers of non-performing loans, and the corporate debt restructuring between these banks and their debtors was not very successful at first. The bankruptcy law that existed at the time of crisis was inadequate to cope with the situation where debtors and creditors need to negotiate about their debt settlement quickly and move on. The democratic attempt by the government to enact a new bankruptcy law was faced with strong resistance from the Thai political community, particularly in the Senate. It took the government several months to pass this new law, with several compromises. However, the effect of the passing of this law should facilitate faster debt negotiation and debt restructuring so that the NPL situation improves and banks can start lending again.

In December 1998, Mr. Obuchi Keizo, the Japanese Prime Minister announced at the ASEAN Summit meeting in Hanoi that Japan would provide up to 30 billion US dollars as an additional funding for countries beset by the current economic crisis, to be spent in the social sectors to help alleviate the adverse impact on the people. This new aid package is later widely known as the New Miyazawa Initiative or Miyazawa Plan after the name of Mr. Miyazawa Kiichi, the Japanese Finance Minister who had conceived this aid package in October 1998. Thailand was quick to make use of this New Miyazawa Initiatives. A special loan from this plan plus additional loan from the World Bank combined with the reduction in the VAT rate from 10 to 7 per cent, and a general reduction in energy costs formed an economic stimulus package that was launched by the government on March 30, 1999. This economic stimulus package which amounted to some 53 billion baht is expected to quicken the recovery process of the Thai economy so that at the end of 1999, the GDP is expected to grow by about one per cent.

Throughout these crisis corrections, the US and Japan have been playing various important roles on various stages of the crisis. The Thai government sought the help of the Japanese government first when the crisis broke in early July 1997, then the Japanese government worked with the IMF to draw up rescue package worth about 17.2 billion US dollars, consisting USD4 billion from Japan, USD4 billion from the IMF, and the remainder from the World Bank, the Asian Development Bank, and several friendly countries. These credit lines would be used to finance the balance of payments gap and rebuild international reserves.

The manner in which, and the speed with which Japan had come to the aid of Thailand had showed a high level of concern that Japan had towards Thailand. In comparison with the response from the US in the early stage of the crisis, the response from the US was much less enthusiastic. Perhaps the US government was of opinion that the event in Thailand was a currency crisis that would be limited in scope and severity, that the disease would not spread to neighbouring economies, and that the rescue package that the IMF and Japan had provided would be sufficient to correct the situation. When the same symptoms struck Indonesia and Korea, it realised that this was a major crisis and the US government must act forcefully. That was when the US government began to respond seriously to the contagion. The rescue package approved by the IMF for Indonesia and Korea worth 47 and 54 billion US dollars, respectively, were much larger than that given to Thailand. At the APEC summit meeting in Vancouver, Canada in November 1997, President Clinton publicly apologised to the Thai Prime Minister, Mr. Chuan Leekpai for being slow in coming out to help Thailand, and promised to make amend at an appropriate time.

That appropriate time arrived in early March 1998 when President Clinton invited Mr. Chuan to visit Washington, DC to meet with him and many other Congressional leaders. As a result of this meeting, the US government agreed to rescind, without penalty, the contract that the Thai government had entered into with the US government to purchase a squadron of F-18 fighters worth more than 300 million US dollars. Other

assistance packages were also offered such as the setting up of funds to help Thai students who are currently enrolled in the US educational institutions, and the promise to provide additional help if the credit line from the IMF is insufficient. The visit to Washington, DC of Mr. Chuan was a winner for both Thailand and the US. The confidence gain as a result of Mr. Chuan's visit was immediate as the baht improved more than 5 per cent after the visit concluded. For the US, this meeting was used to show the world that the US was genuine in its intention to help Thailand.

Throughout the remainder of 1998, the US government either individually or through its representation in the IMF and the World Bank, followed the development of crisis management in Thailand with keen interest, and was quick to praise Thailand for the progress in its macroeconomic performance.<sup>10</sup> The local opponents of the IMF in Thailand saw things differently, however. They criticised the Thai government for adopting the open-market approach to crisis resolution, believing that policy prescriptions by the IMF were a part of conspiracy to subjugate Thailand to foreign domination.<sup>11</sup> It is probably more true to believe that the Thai response to the crisis was very much conditioned by the belief in market approach that Thailand had adopted with regards to its general economic development for the last 30-40 years. The IMF could not effectively and unilaterally impose conditions on Thailand if the Thai authority did not agree to doing them. As it turned out, the Thai authority and the IMF had worked closely together in a series of negotiations and consultations. The agreements were then spelled out in various 'Letters of Intent' of the Thai authority. These are the 'intent' of the Thai authority more than the intent of the IMF.

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<sup>10</sup> Mr. Robert Rubin, the US Secretary of the Treasury, visited Thailand in mid-1998 and gave interview to local press admiring the progress in the crisis management of the Thai government.

<sup>11</sup> Because some important policy packages included the amendment of the bankruptcy law that forces debt negotiation between debtors and creditors, and a faster foreclosure procedure; the permission for foreign companies to increase their ownership of local commercial banks and other business enterprises.

In terms of FDI from the US to Thailand, the crisis had slowed down the pace of such FDI but did not stop or reverse the direction. The expansion of the hard-disk drive factory in Prachin Buri province by the IBM still continued, and so did the construction of automotive plants in Rayong by General Motors and Chrysler. On maintaining the level of support to local subsidiaries, the Japanese were probably doing better. At the height of the crisis when foreign capital continued to flow out of Thailand, many (in fact most) Japanese companies in Thailand had received financial assistance from their parent companies in Japan to maintain local operations and employment, and these capital inflows were indeed a major source of foreign revenue apart from credit tranches from the IMF and the revenue from Thai exports. The Japanese government also encouraged Japanese creditors to rollover debts of Thai companies or counterparts so as to relieve some pressure from the financial crisis. Throughout the crisis only one Japanese company had withdrawn its operation from Thailand, but that decision was made before the crisis and was not directly caused by the crisis.

Based on the above close relationship between Thailand and Japan, and Thailand and the US, it is possible to conceive a list of several actions that both the US and Japan could take and should take to assist the ailing Thai economy within the next two years. At least three immediate actions could be considered.

### **(1). Increase the flow of trade, investment and services**

Foreign trade and investment have been a vehicle of growth of the Thai economy for several decades. The crisis had caused contraction in the economy and created welfare loss to the Thai people. While the reform in the financial sector lies at the heart of the crisis management and solution, the country needs resources quickly to continue to produce and exchange with the outside world. It needs an increased trade and investment with these two economic superpowers. As shown in Table 2, the total trade of Thailand with Japan and the US amounted to more than one-thirds of the total trade of Thailand before the crisis in 1996,



with exports to Japan accounted for 16.82 per cent in 1996, and exports to the US accounted for 17.97 per cent in the same year. The crisis had brought some changes in the exports of Thailand to these two countries. Although the absolute value of exports to Japan continued to increase in 1997 and 1998, its share of total Thai exports fell to 14.99 and 13.72 per cent, respectively. On the contrary, Thai exports to the US had increased rapidly. The share of Thai exports to the US increased to 19.62 per cent in 1997, and further to 22.28 in 1998. The reasons for this are not difficult to explain. The recession in Japan had caused its demand for Thai exports to fall relatively while the robust economy in the US and the relative gain in the US dollar against the Thai baht had caused Thai exports to the US to rise rapidly. On the import side, the share of Japanese imports in the total Thai imports fell continuously from 1996 to 1998, reaching 23.69 per cent in 1998, whereas the share of US imports into Thailand increased from 12.49 per cent in 1996 to 14.08 per cent in 1998. However, this rise in the US share could be explained by the weak baht rather than the genuine increase in volume term. Whatever the case may be, if both the US and Japan could encourage their importers to imports more goods from Thailand, the beneficial effects to Thailand could be quickly and directly felt. Tables 3 and 4 show the ten most important export items from Thailand to Japan and the US. They were a mixture of manufacturing and processed food products. Each of these export items has the potential to expand quickly to meet the demand when and where such demand exists.

Direct investment from these two countries could also help Thailand during the crisis. From Table 5 it may be seen that FDI from Japan had actually increased from 1,339 million US dollars in 1996 to 2,562 million US dollars in 1997, while the FDI from the US fell from 501 million US dollars in 1996 to -130 million US dollars (that is a reverse FDI flow from Thailand to the US) in 1997. A substantial increase in FDI from these two countries will not only stimulate local economy, it will also generate increased confidence among investors from other countries. Nevertheless, on the arrival of American and Japanese tourists to Thailand

during the crisis, the statistics had shown that the number of American tourists to Thailand had increased while the number of Japanese tourists declined. Again the recession in Japan and the economic prosperity in the US could be used to explain this phenomenon. Appropriate policy change that will affect the above economic activities is certain to help Thailand.

### **(2). Maintain domestic policies favourable to Thailand**

A high economic growth rate in the US is certainly a boon to Thailand (and other crisis countries in the East Asian region) as this high growth had resulted in increased import demand in the US itself. But to sustain this growth, certain domestic policies must be put in place to keep the economy growing. So far the Federal Reserve Board of the US has decided to maintain a low interest rate regime, which helps continue economic expansion, while the inflation is kept in check. Beyond this interest rate policy is the trade policy that continues to favour imports from Thailand which includes the tolerance of sustained trade deficit in Thailand's favour, the adoption or return of the General System of Preference (GSP) of some products, the avoidance of trade barriers, tariff as well as non-tariff, and the non-imposition of trade sanctions. The stronger Japanese economy is also a great help toward increased Japanese demand for Thai products (or increased demand for travel to Thailand). On this point, the Japanese government is doing all it can to rectify the situation. One can only hope that the Japanese government succeeds in its endeavour.

### **(3). Provide financial and technical assistance as needed**

As mentioned earlier, the financial assistance to Thailand at the onset of its currency crisis had turned out to be quite inadequate. Coupled with incorrect policy to squeeze government spending to maintain fiscal surplus at the beginning of the crisis and the initial tax hike, the Thai economy had sunk quickly into recession. Pertinent issues being debated at the end of 1997 and early 1998 were availability of

additional financial assistance from the US and Japanese governments, the IMF, the World Bank, the ADB, and other international financial institutions. In the US, the request by the government to the Congress to contribute another 18 billion US dollars to replenish the existing fund of the IMF was met with strong resistance from many congressmen and senators. It took more than a year for the US government to get additional 18 billion US dollars to the IMF. The availability of funds in Japan was much easier. Japan has a lot of money it can lend. Several assistance measures were announced, including the now famous Miyazawa Plan (see Box 1).

Note that the US and Japan now working closely together to offer and manage these funds. The US position had changed from 1997 when it had opposed the idea of setting up the so-called Asian Monetary Fund or Asian Fund for fear that Japan would dominate the financial systems of East Asia and would dilute the role of the IMF. It now saw the need to make available more financial assistance and quite agreed to let Japan take the leading role in these matters. The US itself, through the IMF and the World Bank had made a point that the crisis must not hurt the poor in the country as they were not the culprits who brought on the crisis. Therefore, when the IMF asked the Thai government to cut spending to save some funds for debt repayments, it had stipulated that educational and health spending must not be cut. Later on several programs which specifically addressed the issues of social safety nets or social protection were offered by the World Bank and the ADB, and the Thai government had made use of several of these programs.<sup>12</sup> The US concern on the impacts of economic crisis on the people was so strong that it has now made it a part of its foreign economic policies (see Box 2).

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<sup>12</sup>For a detail on the social investment programs or social safety net programs in Thailand, see, for example, Medhi Krongkaew, 'Impacts of Economic Crisis on Production, Price, Trade, Investment and Employment: the Case of Thailand', in Yamazawa Ippei (ed.), *Strengthening Cooperation Among Asian Economies in Crisis*, Tokyo: Institute of Developing Economies, 1999, pp. 125-158; and Medhi Krongkaew, Chapter 4: Human Development During the Crisis and Beyond, background paper for the 1999 National Human Development Report for Thailand, Bangkok: UNDP Bangkok Office, 1998.

#### **(4). Promote economic stability, peace and security in the region**

In international economic crisis, countries may be forced to make drastic policy changes such as competitive devaluation, currency and capital controls, or even emergency national actions. The international financial chaos and disorder may require that some international agencies such as the IMF play an important role in keeping the world financial and economic systems in order. This is why such organisations as the IMF are so important today. But even the IMF needs the backup of the US and Japan. They could provide the necessary funds, guidance and suggestion on how to handle the crisis. If one looks at the first article of the IMF one will see that the avoidance of competitive devaluation and foreign exchange restrictions are the two most important functions. So, if the IMF could act to prevent countries in trouble to engage in competitive devaluation and exchange controls these functions are fulfilled. The US and Japan as economic superpowers can help to correct the situations in crisis countries and/or persuade other countries to fall into line. Imagine if the currencies of Thailand and Korea never stopped sliding down, if China followed suit with the devaluation of its currency, if all foreign debts were reneged upon. This is the kind of economic stability that we look towards such countries as the US and Japan for leadership. But stability can also go beyond economic realm. Political peace and security are also something necessary for the orderly functioning of the economic transactions. Trade and investment in the atmosphere of cordial relationship without territorial or ideological tensions. Promotion of this kind of peace and security could also be undertaken by the US and perhaps with some participation from Japan.

### **5. Some long-term Policy Actions**

The above policy actions are mainly for short-term assistance to economies in trouble like Thailand. In a longer term perspective, there may be other actions that the US and Japan could take together to bring

about more stable situations in East Asia. The following three actions could be subjects of debate and deliberations in the next several years.

### **(1). New political and security configurations in East Asia**

Future economic stability and security in the East Asian region depend on the change in political and security configurations that come with the change in economic status. The US is now the only super political and military power in the world, so it can have relatively greater freedom to act as an international policeman. It may have to get involved in some issues that in fact are not within its purview of direct interest. The international role of the US will become busier and more complex. The following scenarios can involve quite a different kind of action and participation from what the US is used to having.

- What if Japan decides to rearm itself in anticipation of belligerent North Korea, and by getting deeper into the research for Theatre Missile Defense (TMD) emerged a superior military power?
- What if China, which has become stronger economically day by day, decides to become a world political and military power by strengthening its armed forces and play more active role in international arenas? Would that challenge the position of Japan? How would the US act in this situation?
- What if Thailand which is a traditional friend and ally of the US decides to downgrade this strong historical relationship and join with Malaysia and Indonesia in opposing the role of the US in Southeast Asian region?
- What if military leaders in Myanmar yields to the US pressure and give up their power, which then brings the US into full development partner in Myanmar? How this change would affect the position of ASEAN in general?

These are some of the long-term scenarios that are certain to affect the future political and security configurations in the East Asian region.

## **(2). New International Financial Architecture**

The current economic crisis has become much more serious than anybody had thought. It is ironic that the force in the US, that is fund managers and their business dealings could bring down several countries, and yet another forces in the US, this time the IMF and the World Bank, could also bring these countries back to life. The future international financial systems need to be more predictable or at least more secure than the present systems. If the US could have its way, the IMF would be engaged in the following changes in international financial architecture.<sup>13</sup>

1. There will be development, dissemination, and adoption of internationally accepted standards or codes of good practice so that market participants can compare information on country practices against agreed benchmarks of good practices and to make better investment decisions;
2. There will be transparency on the part of members of the IMF in their policy determination, and on the part of the IMF in the openness and clarity of its policies and advice;
3. Financial systems of members need to be strengthened through enhanced technical assistance, better surveillance on the linkages between macroeconomic policies and sound banking systems, more training on bank supervision and other banking problems, and improvement on the IMF's capacity for financial sector analysis;
4. International financial markets will need to be integrated in a more orderly fashion; and

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<sup>13</sup> Adapted from Medhi Krongkaew, 'Trying to Understand the Role of the IMF in the Current Asian Economic Crisis', *The Nation*, Tuesday March 16, 1999.

5. The private sector will be induced to get more involved in the prevention and resolution of the financial crises, especially in providing liquidity support to countries in times of financial stress, in improving the coordination of debtor-creditor relations in voluntary debt-restructuring, and in creating well-functioned corporate bankruptcy systems.

### **(3) New Relationship in APEC, ASEAN and GMS**

The East Asian nations have been strong supporters of such international or regional grouping as APEC because this is a loose association based on the concept of open trade and investment, where members can join in voluntarily, and most trade and investment concessions were offered unilaterally without requiring reciprocity. Strictly speaking this is not what the US would have liked, but the US went along for the spirit of regional cooperation. One does not know how long the official US position could hold on to this. APEC is where the US still does not exert its own superpower influence fully. Would the US position in APEC change in time? With regard to ASEAN, many ASEAN countries may be tigers in trouble, but sooner or later these tigers will come to health again. Now with every country in Southeast Asia a member, ASEAN can be a force to be reckoned with when the crisis had passed and the good time had returned. Contrary to some beliefs, larger organisation could bring about easier consensus because the peer pressure is stronger. If that is the case, then the post-crisis ASEAN should hold more promise than the pre-crisis ASEAN. Moreover, the new ASEAN will overlap or incorporate the Greater Mekong Subregion (GMS) as well, and the potentials for greater economic development in this subregion will be something few have seen in modern time.

## 6. Summary and Conclusions

This paper has attempted to show that both the US and Japan contributed greatly to the economic development of Thailand, the US in providing the capitalistic development framework, and Japan with development funding through foreign direct investment. The contributions from these two economic superpowers have helped Thailand attain the status of NIE in mid-1980s. However, several local institutions are not developed enough to cope with rapid economic liberalisation in and around Thailand leading to abuses in the systems such as over-borrowing overseas, too much short-term debts, over-spending in non-productive activities, lack of adequate regulations and supervision in the financial sector, conflicting exchange rate and currency policies, lack of economic leadership, and so on. With the poor performance in the export sector which is one of the most important sectors in the Thai economy, the existing currency policy could not be hold together. The crisis started with the flotation of the baht, and for almost two years, the country has suffered a great deal. But through conservative and patient policy measures, incorporating financial sector restructuring, monetary policy to control money supply and exchange rate, fiscal policy to control domestic demand, and privatisation, the economy of Thailand had started to come out of recession.

The US and Japan could continue to influence future development of the Thai economy. They could help by increasing flows of trade, investment and services, maintaining domestic policies that are conducive to the growth of the Thai economy, providing financial and technical assistance as needed, and promote economic stability, peace and security in the region. In the long-term, the US and Japan need to look at a new power configuration in the region, new international financial architecture, and new status of regional groupings such as APEC and full ASEAN.

As the East Asian areas have become more complex, the interrelationship among countries in the region also have become more



difficult. Only by constantly monitoring the change in economic and social positions of each country in relations to another could we arrive at some understanding of the region at large. One thing is certain, however. The East Asian region could not do without a strong role of both the US and Japan. Japan needs to come out of its recession quickly to play more leadership role in the region, whereas the US must continue to prosper and provide stimulus to the countries in crisis. Without these two factors the future prospects of smaller developing countries in East and Southeast Asia could be bleak indeed.

### **Box 1: Japan's Assistance in the Asian Economic Crisis**

Not just Thailand that had received generous financial and technical assistance from Japan during its current economic crisis; other nations in Asia also had received similar assistance. Four of the following assistance packages are worth noticing.

#### **(1). Assistance measures for Asia**

The assistance measures for Asia which have been announced by the Japanese Government since July 1997 totals USD44 billion. Much have already been implemented, and for others concrete arrangements for implementation are being worked out.

#### **(2). 'New Initiative to Overcome the Asian Currency Crisis (New Miyazawa Initiative)'**

In October 1998, Japan announced that it would provide a package of support measures totaling approximately USD30 billion of which USD15 billion would be made available for the medium and long-term financial needs for economic recovery in Asian countries, and another USD15 billion would be set aside for their possible short-term capital needs during the process of implementing economic reform. This initiative would be implemented in addition

to the above USD44 billion assistance measures. As of March 1999, four loans have been made to Thailand, Malaysia, Philippines, and Indonesia.

(3). ‘Asian Growth and Recovery Initiative’

On November 16, 1998, Prime Minister Obuchi and President Clinton jointly announced the initiative to support several Asian countries which faced difficulties in financing their measures for restoring growth because of world-wide liquidity shortage. Japan and the US, with the support of the World Bank and the Asian Development Bank would prepare USD5 billion. Japan intended to apply a part of USD3 billion national bond which would be donated to the ADB.

(4). ‘Emergency Economic Package (Measures to Assist Asia)’

The emergency economic package announced on November 16, 1998 included measures to assist Asian countries amount to about 1 trillion yen (approximately USD8.3 billion) as a measure to reduce risks to the global economy. The measures necessary to realise both the ‘New Initiative to Overcome the Asian Crisis’ and the ‘Asian Growth and Recovery Initiative’ were included in the package.

**Source:** Website of the Ministry of Foreign Affairs of Japan.

### **Box 2: The US Financial Initiatives to Protect Ordinary Citizens Around the World**

On April 20, 1999, President Clinton made a public announcement concerning a new series of financial initiatives to protect ordinary citizens around the world. Although the suffering of the poor people as a result of current economic crisis in Asia was behind this new policy initiative, the applicability of this policy has gone beyond the crisis in Asia. This is part of his speech:

“For the United States, for ordinary citizens in the United States, and for their counterparts throughout the world, there are few more important things for leaders to be doing than working on building a stable financial architecture for the new century.”

First, we industrial countries should take steps to reduce the entire financial system’s vulnerability to rapid capital flows and excess leverage. For example, we should strengthen bank regulations so they actually take into account the real risks of lending.

Second, we should continue to develop a better way to respond to crises, including appropriate sharing of responsibility by the private sector.

Third, developing countries should take more responsibility as well, by strengthening financial regulation and bank supervision, and developing sustainable debt management policies, thus avoiding excessive reliance on short-term debt.

Fourth, the international financial institutions should focus their efforts on encouraging developing countries to adopt sustainable exchange rate regimes and the macroeconomic policies necessary to support them.

Fifth, we must ensure that the most vulnerable citizens do not bear the brunt of these crises. That means the IMF and the World Bank must pay more attention to social safety nets, working with

countries to lay strong foundations during good times and to maintain adequate protections during bad times.

Sixth, we must remember that the poorest countries--nations that private capital flows are bypassing altogether--need help because they are burdened with unsustainable levels of debt. No nation committed to good governments and economic reform should be crushed by a debt burden that it is so heavy it will punish ordinary citizens and prevent growth, no matter what people do.

If we take these steps, we can put a human face on the global economy. We can show people--the world, that there won't just be economic numbers showing growth, but their lives will be actually improved by the work we do to draw closer together.

**Source:** United States Information Service Website

### **Box 3: The Lonely Superpower**

According to Samuel P. Huntington, the US in the past few years has attempted or been perceived as attempting more or less unilaterally to do the following:

- Pressure other countries to adopt American values and practices regarding human rights and democracy;
- Prevent other countries from acquiring military capabilities that could counter American conventional superiority;
- Enforce American law extraterritorially in other societies;
- Grade countries according to their adherence to American standards on human rights, drugs, terrorism, nuclear proliferation, missile proliferation, and now religious freedom;
- Apply sanctions against countries that do not meet American standards on these issues;

- Promote American corporate interests under the slogans of free trade and open markets;
- Shape World Bank and International Monetary Fund policies to serve those same corporate interests;
- Intervene in local conflicts in which it has relatively little direct interest;
- Promote American arms sales abroad while attempting to prevent comparable sales by other countries;
- Force out one U.N. secretary-general and dictate the appointment of his successor;
- Expand NATO initially to include Poland, Hungary, and the Czech Republic and no one else;
- Undertake military action against Iraq and later maintain harsh economic sanctions against the regime;
- Categorise certain countries as “rogue states”, excluding them from global institutions because they refuse to kowtow to American wishes.<sup>14</sup>

The main message from Huntington is that the above behaviour may come from the misconception that the US exists in a unipolar world, which is not true. To deal with any major global issue, the US needs the cooperation of at least some major powers. The US also should not look at itself as a benign hegemon, and should not think that the rest of world would agree with the US in whatever it decides to do. To Huntington, the US, as the only superpower, should use its resources to elicit cooperation from other countries to deal with global issues in ways that satisfy American interests.

**Source:** Samuel P. Huntington, ‘The Lonely Superpower’, *Foreign Affairs*, vol. 78, no. 2, March/April 1999, pp. 35-49.

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<sup>14</sup>to which I may add vetoing a candidate from Thailand from being selected new director of the WTO, and influencing the eventual selection of the candidate of its choice.

**Table 1:** Current Economic Statistics (latest series)

	1998				
	Jun.	Jul.	Aug.	Sep.	Oct.
<b>Activity and Prices</b>	<i>(% change from the same period of last year)</i>				
Manufacturing Production Index, seasonally adjusted 2/	98.3	94.9	93.9	95.5	98.5
Manufacturing Production Index without seasonal adjustment	-12.3	-13.9	-10.4	-8.3	-3.1
(12-month moving average)	-12.0	-13.4	-13.7	(-10.9)	(-10.5)
Private Investment 3/	-16.9	-19.6	-20.8	-22.3	-23.0
Government cash balance (bn.)	-1.3	-10.7	-32.8	-51.6	-18.8
Consumer Price Index 4/	10.7	10.0	7.6	7.0	5.9
- Food	13.6	11.8	7.4	7.3	6.7
- Non-food	8.8	9.0	8.2	7.0	5.8
<b>External Accounts</b>	<i>(In millions of US\$)</i>				
Exports	4,493	4,560	4,229	4,470	4,493
(% ^ US\$)	-3.1	-3.8	-11.7	(-10.3)	(-12.6)
Imports	3,565	3,590	3,294	3,228	3,402
(% ^ US\$)	-35.9	-31.9	-38.3	(-32.3)	(-24.8)
Trade Balance	928	970	935	1,242	1,091
Current Account Balance	853	1,184	1,123	1,103	1,275
Balance of Payments 4/	-808	266	-176	376	342
Official Reserves (bn.US\$) 4/	26.6	26.8	26.7	27.3	28.5
<b>Monetary Statistics</b>	<i>(In billions of Baht)</i>				
M1	381.7	398.9	389.9	389.3	399.2
(% ^)	-3.7	1.4	-9.0	(-2.8)	(-2.0)
M2	4,502.5	4,587.5	4,602.9	4,689.3	4,718.2
(% ^)	13.8	13.3	11.2	(12.6)	(11.3)
M2A	4,929.4	4,968.2	5,003.9	5,059.6	5,092.9
(% ^)	4.4	5.8	6.7	(8.1)	(7.7)
Monetary Base	427.5	448.1	442.1	440.0	450.2
(% ^)	-16.9	-4.4	1.5	(1.4)	(1.5)
Bank deposits	4,377.6	4,457.4	4,496.8	4,580.3	4,585.6
(% ^)	9.8	9.8	11.4	(12.7)	(10.7)
Commercial bank credits	5,723.1	5,639.2	5,642.5	5,653.0	5,537.1

**Table 1:** Current Economic Statistics (latest series) (cont.)

	1998				
	Jun.	Jul.	Aug.	Sep.	Oct.
(% ^)	12.7	6.2	4.1	(0.8)	(-4.3)
excluding BIBF's	4,653.8	4,640.3	4,643.5	4,734.3	4,690.3
(% ^ )	9.6	8.4	7.3	(6.1)	(4.2)
<b>Interest Rates 4/</b>	(End of period)				
Prime Rate (MLR) 5/	15.25- 15.5	15.25- 15.5	14.75- 15.0	14.5- 14.75	13.75- 14.0
Minimum Retail Rate (MRR) 5/	15.5- 16.25	15.5- 16.25	15.25- 16.25	15.0- 15.75	14.25- 15.25
Fixed Deposit Rate (1 year) 5/	10.0- 11.5	10.0- 12.5	9.5- 11.5	7.0- 8.5	6.75- 7.75
- Interbank Rate (average)	18.58	11.72	9.81	7.17	5.35
<b>Exchange Rate (average baht : US\$) 4/</b>	42.36	41.19	41.58	40.41	38.14

1/ Except for actual figures, data shown in this table are subject to revision. 2/ Level of the Manufacturing Production Index with seasonal adjustment 3/% D of private investment as indicated by the Private Investment Index. 4/ Actual figures 5/ As quoted by the 4 largest banks.

**Source:** Bank of Thailand's Monthly Statistical Release

**Table 1: Current Economic Statistics (latest series)**

	1998 Jun.	Nov.	Dec.	1999 Jan.	Feb. (preliminary)	Mar. (estimated)
<b>Activity and Prices</b>	<i>(% change from the same period of last year)</i>					
Manufacturing Production Index, seasonally adjusted 2/	98.5	95.5	100.6	98.6	99.8	97.0
Manufacturing Production Index without seasonal adjustment (12-month moving average)	-3.1 (-10.5)	-5.3 (-10.1)	-2.7 (-10.0)	-0.1 (-9.2)	2.4 (-8.1)	5.8 (-5.9)
Private Investment 3/	-23.0	-23.4	-23.5	-22.9	-22.4	n.a.
Government cash balance (bn.)	-18.8	-2.0	-19.9	-1.9	-2.1	3.9
Consumer Price Index 4/	5.9	4.7	4.3	3.5	2.9	1.6
- Food	6.7	5.8	6.1	4.7	3.5	0.9
- Non-food	5.8	4.1	3.2	2.9	2.5	2.1
<b>External Accounts</b>	<i>(In millions of US\$)</i>					
Exports	4,493	4,379	4,543	3,976	4,101	4,777
(% ^ US\$)	(-12.6)	(-8.5)	(-8.5)	(-5.1)	(-5.7)	(1.5)
Imports	3,402	3,341	3,313	3,190	3,143	3,790
(% ^ US\$)	(-24.8)	(-15.2)	(-15.8)	(-3.9)	(-2.1)	(5.6)
Trade Balance	1,091	1,038	1,230	786	958	987
Current Account Balance	1,275	1,136	1,450	1,202	1,353	n.a.
Balance of Payments 4/	342	831	193	-447	-48	1,309
Official Reserves (bn.US\$) 4/	28.5	28.9	29.5	29.0	28.7	29.9
<b>Monetary Statistics</b>	<i>(In billions of Baht)</i>					
M1 5/	399.2	406.1	441.8	437.0	426.9	420.1
(% ^ )	(-2.0)	(-0.4)	(3.0)	(-1.5)	(-0.9)	(3.5)
M2 5/	4,718.2	4,729.3	4,753.4	4,741.9	4,784.9	4,789.5
(% ^ )	(11.3)	(11.3)	(9.5)	(7.4)	(8.4)	(8.6)
M2A 5/	5,092.9	5,074.3	5,118.1	5,092.2	5,128.3	n.a.
(% ^ )	(7.7)	(7.2)	(6.1)	(4.8)	(5.3)	n.a.
Monetary Base 5/	450.2	467.3	475.3	475.7	464.3	489.1
(% ^ )	(1.5)	(5.7)	(0.3)	(0.9)	(-0.2)	(9.2)
Bank deposits	4,585.6	4,603.7	4,595.9	4,580.8	4,641.9	4,645.4
(% ^ )	(10.7)	(10.8)	(8.8)	(6.8)	(8.0)	(8.5)
Commercial bank credits	5,537.1	5,476.8	5,472.7	5,457.2	5,490.0	5,485.0
(% ^ )	(-4.3)	(-4.9)	(-9.7)	(-13.2)	(-6.5)	(-4.0)
excluding BIBF's	4,690.3	4,682.1	4,705.7	4,706.4	4,755.3	4,776.0
(% ^ )	(4.2)	(3.5)	(1.2)	(0.1)	(2.1)	(2.7)



**Table 1:** Current Economic Statistics (latest series) (cont.)

	1998 Jun.	Nov.	Dec.	1999 Jan.	Feb. (preliminary)	Mar. (estimated)
<b>Interest Rates 4/</b>	<i>(End of period)</i>					
Prime Rate (MLR) 6/	13.75- 14.0	11.75- 12.75	11.50- 12.00	11.00- 11.50	10.00- 10.50	9.50- 10.00
Minimum Retail Rate (MRR) 6/	14.25- 15.25	12.25- 14.00	12.00- 13.25	11.50- 12.75	10.50- 11.75	10.00- 11.25
Fixed Deposit Rate (1 year) 6/	6.75- 7.75	6.00- 6.75	6.00	5.50- 6.00	5.00- 5.25	5.00
Interbank Rate (average)	5.35	3.55	2.63	2.73	3.09	2.25
<b>Exchange Rate</b> (average baht : US\$) 4/	38.14	36.46	36.25	36.59	37.06	37.51

1/ Except for actual figures, data shown in this table are subject to revision. 2/ Revised series of the Level of the Manufacturing Production Index with seasonal adjustment 3/ %D of private investment as indicated by the Private Investment Index. 4/ Actual figures 5/ Revised series 6/ As quoted by the 4 largest banks.

**Source:** Bank of Thailand's Monthly Statistical Release

**Table 2:** Total Trade of Thailand with Japan and the US

Year	1992	1993	1994	1995	1996	1997	1998
<b>Exports : (million baht)</b>							
Total	824,643	935,862	1,137,600	1,406,311	1,412,111	1,806,699	2,247,454
To Japan	144,393	159,479	194,276	236,099	237,523	270,765	308,415
(% of total)	17.51	17.04	17.08	16.79	16.82	14.99	13.72
To U.S.A.	185,008	202,227	239,100	250,685	253,800	354,552	500,788
(% of total)	22.43	21.61	21.02	17.83	17.97	19.62	22.28
<b>Imports : (million baht)</b>							
Total	1,033,244	1,166,595	1,369,037	1,763,587	1,832,836	1,924,281	1,774,076
From Japan	302,373	353,507	413,321	538,711	518,107	492,078	420,297
(% of total)	29.26	30.30	30.19	30.55	28.27	25.57	23.69
From U.S.A.	121,218	136,053	162,063	211,948	228,974	267,302	249,744
(% of total)	11.73	11.66	11.84	12.02	12.49	13.89	14.08

**Source:** Bank of Thailand

**Table 3:** 10 Main Exports of Thailand to Japan

Million of Baht

Items	1992	1993	1994	1995	1996	1997	1998
1. Electrical appliance	9,063	11,350	15,852	24,448	22,235	22,897	25,584
(% of total)	6.28	7.12	8.16	10.35	9.36	8.46	8.30
2. Computer and parts	6,079	4,516	6,443	9,973	15,389	19,600	24,808
(% of total)	4.21	2.83	3.32	4.22	6.48	7.24	8.04
3. Canned food	6,189	7,076	8,702	11,732	12,192	15,249	17,861
(% of total)	4.29	4.44	4.48	4.97	5.13	5.63	5.79
Of which : Canned seafood	3,014	3,445	4,826	7,235	7,373	9,485	11,480
(% of total)	2.09	2.16	2.48	3.06	3.10	3.50	3.72
4. Rubber	9,876	9,714	12,862	20,646	18,340	18,003	15,712
(% of total)	6.84	6.09	6.62	8.74	7.72	6.65	5.09
5. Shrimp	14,526	16,389	18,207	18,595	12,514	12,276	12,724
(% of total)	10.06	10.28	9.37	7.88	5.27	4.53	4.13
6. Textile products	8,172	8,034	9,212	10,238	10,675	11,316	10,376
(% of total)	5.66	5.04	4.74	4.34	4.49	4.18	3.36
Of which : garments	7,584	7,573	8,479	9,264	9,435	9,320	8,853
(% of total)	5.25	4.75	4.36	3.92	3.97	3.44	2.87
7. Frozen fowl	8,786	7,082	7,791	7,818	6,911	6,664	10,266
(% of total)	6.08	4.44	4.01	3.31	2.91	2.46	3.33
8. Integrated circuits and parts	2,876	4,681	5,003	8,321	6,210	6,996	8,523
(% of total)	1.99	2.94	2.58	3.52	2.61	2.58	2.76
9. Plastic products	1,460	2,152	2,957	3,904	3,644	4,559	7,227
(% of total)	1.01	1.35	1.52	1.65	1.53	1.68	2.34
10. Precious stones and jewellery	7,277	7,776	8,379	8,895	8,066	5,960	5,241
(% of total)	5.04	4.88	4.31	3.77	3.40	2.20	1.70
Total exports to Japan	144,393	159,479	194,276	236,099	237,523	270,765	308,415
(% of total)	100.00	100.00	100.00	100.00	100.00	100.00	100.00

**Source:** Bank of Thailand

**Table 4:** 10 Main Exports of Thailand to the US

Million of Baht							
Items	1992	1993	1994	1995	1996	1997	1998
1. Computer and parts	15,956	17,151	23,349	25,557	29,276	50,719	87,008
(% of total)	8.62	8.48	9.77	10.19	11.54	14.31	17.37
2. Textile products	23,300	25,977	28,429	30,393	32,492	47,416	70,263
(% of total)	12.59	12.85	11.89	12.12	12.80	13.37	14.03
Of which : garments	19,470	22,272	24,811	27,365	29,410	42,338	63,030
(% of total)	10.52	11.01	10.38	10.92	11.59	11.94	12.59
3. Electrical appliance	21,629	17,736	22,653	20,497	18,219	32,302	38,443
(% of total)	11.69	8.77	9.47	8.18	7.18	9.11	7.68
4. Canned food	15,564	14,348	15,884	14,766	15,962	23,335	32,895
(% of total)	8.41	7.09	6.64	5.89	6.29	6.58	6.57
Of which :	10,359	9,920	12,144	11,466	12,651	20,571	29,903
Canned seafood							
(% of total)	5.60	4.91	5.08	4.57	4.98	5.80	5.97
5. Integrated circuits and parts	7,971	10,904	13,764	15,045	16,401	23,534	28,964
(% of total)	4.31	5.39	5.76	6.00	6.46	6.64	5.78
6. Shrimp	9,006	11,841	15,813	13,541	12,092	14,515	20,560
(% of total)	4.87	5.86	6.61	5.40	4.76	4.09	4.11
7. Precious stones and jewellery	10,241	11,029	11,107	10,678	11,019	12,841	15,845
(% of total)	5.54	5.45	4.65	4.26	4.34	3.62	3.16
8. Footwear	8,752	9,329	9,850	10,211	9,236	12,875	15,021
(% of total)	4.73	4.61	4.12	4.07	3.64	3.63	3.00
9. Telecommunication equipment	6,210	6,358	6,155	6,437	6,026	7,269	11,964
(% of total)	3.36	3.14	2.57	2.57	2.37	2.05	2.39
10. Rubber	3,396	3,844	5,627	8,800	7,388	7,468	8,581
(% of total)	1.84	1.90	2.35	3.51	2.91	2.11	1.71
Total Exports to the U.S.A.	185,008	202,227	239,100	250,685	253,800	354,552	500,788
(% of total)	100.00	100.00	100.00	100.00	100.00	100.00	100.00

**Source:** Bank of Thailand

**Table 5:** FDI from Japan and the US to ASEAN 4 (unit: US\$ million)

	1995	1996		1997	
			% change		% change
<b>From Japan</b>					
ASEAN 4	3,348	3,831	14.4	7,167	87.1
Thailand	936	1,339	43.0	2,562	91.3
Malaysia	377	517	37.3	2,039	294.1
Philippines	1,078	477	-55.8	1,569	228.9
Indonesia	957	1,497	56.5	997	-33.4
<b>From the US</b>					
ASEAN 4	2,511	2,866	14.1	1,358	-52.6
Thailand	686	501	-27.0	-130	n.a.
Malaysia	1,037	963	-7.1	637	-33.9
Philippines	519	686	32.2	560	-18.4
Indonesia	269	716	166.2	291	-59.4

**Source:** JETRO, Jetro White Paper on Foreign Direct Investment (1999), Tokyo: JETRO, 1999.

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## **2. MITIGATING THE SOCIAL COST OF FINANCIAL CRISIS IN EAST ASIA: EXPERIENCES AND POLICY LESSONS\***

**By Medhi Krongkaew\*\***

### **1. Introduction**

If, by financial crisis, is meant difficulties in the financial sector brought about, on the supply side, by inefficiencies in operations of this financial sector, or corrupt practices by bankers or other financial operators, and, on the demand side, by the loss of trust on the part of the general public in the financial system, which may, in turn, result in a massive and spontaneous withdrawal of funds and deposits from the financial system (i.e. bank run), then the social costs of this financial crisis may be limited to those who are directly involved in these difficulties. The depositors may lose some of their deposits whereas some bank personnel may lose their jobs and be legally prosecuted. But financial crisis can spread and become an economic crisis, involving larger groups of people, with difficulties going beyond financial operations into the overall economy, its production, price, employment, and income of the people. In this case, the social costs of an economic crisis are much larger and more difficult to discern and quantify. The financial crisis in this paper is of this second category. It is the financial crisis that is synonymous with the economic crisis, or at least something that can be called 'finance-led economic downturn' (FLED).

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\* Paper presented at the Joint Workshop on Managing Capital Flows in a Volatile Financial Environment, organised by the World Bank Institute and the Center for Pacific Basin Monetary and Economic Studies at the Federal Reserve Bank of San Francisco, in Bangkok, February 21-24, 2000.

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By now, more than two years after the Thai government unpegged its currency from the US dollar and started the East Asian economic crisis, everyone who is following the development of this crisis must have seen, heard or read enormous amount of literature that deals with the causes and course or development of this crisis in the three most affected countries, Thailand, Indonesia and Korea. There is no need to do it again here. This paper will look specifically at the social consequences of the crisis in these three East Asian countries. Section 2 delineates what had happened in the social sector as a result of the crisis. Four types of impacts will be discussed: impact on price and consumption, impact on employment and labour markets, impacts on income, poverty and income inequality, and impact on social services. Section 3 discusses policy responses to such social impacts, taking into account the scarcity of resources during crisis and the urgency of bringing the economy out of the crisis as soon as possible. Section 4 suggests certain measures that either prevent or deal with similar crisis in the future. Finally, Section 5 summarises and concludes.

## 2. Social Consequences of the Economic Crisis

Equally large body of literature exists in the area of social consequences of the financial or economic crisis or FLED.<sup>1</sup> What could be the social consequences of this crisis? Caroline Robb of the University of Sussex has attempted to depict the social consequences of a financial crisis, using what had happened in Thailand as an example. We can build our framework of analysis from Robb's idea. First of all, there are three levels of impacts. The first level or primary impacts centre on income loss and increased poverty owing to unemployment and cuts in wages, price changes, reduced access to and quality of social services,

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<sup>1</sup> See selected bibliography at the end of this paper for examples of such literature. Table 1 gives some comparative statistics that show the state of some East Asian economies.



and credit crunch. The second level or secondary impacts deal with the question: How people are coping. Four possible events could happen: (1) Family members are forced to enter the informal labour market; (2) family cohesion is weakening as migration increases; (3) women and children suffer as household cut down expenditure (less food, children pulled out of school); and (4) young men are turning to illegal activities. This leads to the third level or tertiary impacts whereby the following situations could transpire: some networks of support are strengthened (linking more between rural and urban areas; sharing ideas); overwhelming social capital is being eroded; increased conflict and tension within households (domestic violence), within the community (crime, theft), society (political); decrease trust and security, competition for jobs and space; and increased isolation (as cited by Marshall, 1999, p. 17).

In order to facilitate inter-country comparison, the social consequences of a financial crisis will be limited to impacts in four selected areas only, namely price changes and effects on consumption; employment, unemployment and the labour market; income change and effects on poverty and income inequality; and changes in other social services especially health and education.

## **2.1 Prices and Consumption**

When the Thai government floated the baht against the US dollar in July 2, 1997, it immediately began to sink. Within a few days the exchange rate between the baht and US dollar fell from THB26:USD1 to THB32:USD1. The baht kept falling through THB55:USD1 at the end of January 1998, then it stopped and started to recover, now stabilising around THB37:USD1. With the baht falling so much in value in the last half of 1997, the fear of serious inflation was raised. The consumer price index started to rise in August 1997 and continue to rise until it reached the peak of 10.7 per cent in June 1998. This magnitude of price changes is not large, and what can be used to explain this mild inflation under the condition of drastic devaluation was the abundance of food in Thailand and the downward adjustment in consumption of households

in the face of severe economic downturn. But while the general price increase in Thailand was not large, the prices of those items having high import contents were the exceptions. The price of electricity, fuel and water rose by more than 18 per cent in the first half of 1998 compared to the first half of 1997. The price of domestically produced drugs rose by at least 12 to 15 per cent, and the price of imported drugs by 18 to 20 per cent (World Bank 1999, p. 11).

The situation was different in Indonesia. The rupiah depreciated from IDR2,400:USD1 before the crisis in July 1997 to IDR15,000:USD1 in July 1998, and around IDR9,000:USD1 in September 1998. This massive depreciation of the exchange rate was mainly caused by the excessive monetary expansion to save the banking system from collapsing (Feridhanusetyawan, 1999, p. 11). Monetary stabilisation, especially the stable growth of the base money, in the third and fourth quarter of 1998 led to a stronger rupiah at around IDR7,500:USD1. This massive devaluation, coupled with excessive monetary expansion as mentioned earlier, had led to the sharp increase in domestic price levels. Prior to the crisis, inflation was maintained at a level below 10 per cent. During the first half of 1998, however, the price level rose rapidly, reaching a record 12.8 per cent in February 1998 alone. Cumulative inflation reached 70 per cent level in September 1998. Because of the increasing monetary stability in October and November 1998, the inflation was brought under control in the fourth quarter of 1998 so that the final cumulative inflation in 1998 was around 77.6 per cent (Feridhanusetyawan, 1999, p. 9). The suffering of the Indonesian people through these price increases are quite obvious. The prices of foodstuff rose by more than 118 per cent in 1998. Clothing prices increased by 98.7 per cent, followed by health products and services by 86.1 per cent. Housing prices also increased by 47.5 per cent, with even higher increase in the housing equipment by more than 126 per cent. With so much increase in the prices of necessities, the consumption patterns of the majority of Indonesian people were adversely affected. Secondary and tertiary spending on such things as clothing, health services, education and housing has to be reduced or substituted

by increased spending on food. Many commodities were subsidised by the government during the crisis

By contrast, the situation was much better in Korea with regard to inflation and its effects on people's consumption. Despite a deep devaluation of its currency from about WKR900:USD1 in mid-1997 to about WKR1,700:USD1 in early 1998, the price level in Korea did not rise very precipitously. The inflation in 1997 was a low 4.4 per cent, whereas the rate for 1998 was only slightly higher at 7.5 per cent (World Bank, 1999, p. 17). As such the impacts of price increase on the consumption of the Korean people appear small. The more severe social impacts in Korea are found in the area of increased job-losses and unemployment, in which we turn next.

Before we do that, however, there is an important finding that links price increase with lower consumption and greater poverty incidence. Gupta et al. (1998) reported a study by Vinod Ahuja and others on the effects of change in mean consumption expenditure on poverty. Their study on Thailand had found that the elasticity of the head count index with respect to mean consumption expenditure for the period 1985-1995 was about  $-1.86$ , implying that if mean consumption expenditures fall by 10 per cent, the head count index would increase by 2.8 percentage points in Thailand. Similar study for Indonesia had shown an even larger elasticity between  $-2.7$  and  $-2.8$ . As about 30 per cent of the Indonesian population clustered just above the poverty line, the change in poverty would be very sensitive to the decline in mean consumption.

## **2.2 Unemployment and Changes in the Labour Markets**

Perhaps one of the severest shocks in the aftermath of the onset of currency crisis in July 1997 in Thailand was the credit crunch associated with the sudden outflow of foreign capital. The inability of many firms to service their debts either because of the failure in their business operations, or because of the lack of credit sources, had resulted in these companies ceasing operations or closing down. Those companies that were still able to operate had to cut down their scale of operations,

and to lay off workers was one of the most common practices of these troubled firms. Indeed, the gloomy economic atmosphere gave rise to the loss of business confidence, and several companies, though not in a dire situation, used this occasion to trim their operating costs by laying off some of their highly-paid workers. This added to the rush to reduce work force, and the increased in unemployment was a major problem early on in the crisis.

According to the February 1998 round of the Labour Force Survey of Thailand, the first to capture unemployment impacts of the crisis, the total number of unemployed more than doubled from almost 700,000 (2.2 per cent of the labour force) in February 1997 to 1.48 million people (4.6 per cent) in February 1998 (NESDB, 1998, p. 6). But we were warned not to look at this figure alone because unemployment is expected to be higher in the dry season than in the wet season. The seasonally adjusted unemployment figures showed an increase in unemployment from 0.43 million in the wet season of 1997 to 1 million in the dry season of 1998 and to 1.69 million in the wet season of 1998. What this means is that the impact of the crisis on unemployment rate in Thailand is very severe. The seasonally adjusted unemployment rate in the wet season of 1998 was 5.28 per cent (NESDB, 1998, p. 7). On underemployment defined as the number of full-time equivalent employed persons who are actually working less than 35 hours per week (although they are willing and capable of working longer hours), the seasonally adjusted underemployed persons numbered about 0.19 million in the pre-crisis period (wet season of 1997), increasing to 0.29 million in the dry season of 1998, and to 0.33 million in the wet season of 1998. This means that the economic crisis had contributed to an increase in underemployment by 61.6 per cent between the two wet seasons in 1997 and 1998.

In all, it could be said that there was a great upheaval in the employment situation as a result of the currency turned financial turned economic crisis in Thailand. A great deal of retrenchment and job losses took place in the early months of the crisis, but it must be recognised also that the laxness in the enforcement of the labour laws with regard

to the severance pay, and the coincidental opportunity to streamline employment structure in several companies may be attributable to this vast increase in unemployment. Perhaps even severer unemployment problems occurred in Korea where the corporate governance issues came under much greater criticisms. In other words, many companies in Korea failed to continue their operations because the creditors lost their trust and confidence in these firms' operations and refused to rollover their debts, forcing company foreclosures and bankruptcies.

As Korea is already a newly industrialised country, its employment structure is heavily oriented toward formal manufacturing and services activities where changes in employment can be quickly affected by economic boom or downturn. The above phenomenon is evident in the sudden increase in unemployment when the economy plunged into crisis in late 1997 and early 1998. As can be seen from Table 1, the number of the unemployed increased from 0.561 million during the fourth quarter of 1997 to 1.179 million during the first quarter of 1998. These unemployed workers continued to grow throughout 1998, reaching the peak around 1.749 million during the fourth quarter of 1998 before reducing to 1.435 million in the first quarter of 1999 when the economy has started to recover from its first full year of economic recession. The unemployment rate reached 8.4 per cent during the first quarter of 1999, compared to only 2.6 per cent before the crisis in late 1997.

For Indonesia, the effect of the crisis on employment is also very severe but different from the problems of Korea. As pointed out by Feridhanusetyawan (1999), the Indonesian labour market is dominated by the informal sector which makes it very difficult to precisely measure the employment reduction. The formal sector accounted for only around 35 per cent of the total employment in 1996, and even this the report on lay-offs in the formal sector is not strictly enforced. However, the use of growth induced employment elasticity technique has shown that around 5.4 million workers lost their jobs in 1998, and about 3.6 million of these retrenched workers from the formal sector were absorbed into the informal sector (Feridhanusetyawan, 1999, pp. 19-20). In terms of

unemployment rate, the statistics from the Ministry of Manpower, the National Planning Agency, and the International Labour Office (ILO) have shown that open unemployment rate would range from 10 to 14.8 per cent or around 9.3 to 13.7 million persons. But similar to the case of Thailand, the Indonesian labour market is much more flexible than the Korean labour market. Not only that the movement of workers between formal and informal employment is more prevalent, the adjustment of real wages to the changing demand and supply conditions is much more common in Indonesia, which, to a large extent, helps cushion the deleterious effect job losses from economic crisis.

### **2.3 Income, Poverty and Income Inequality**

As mentioned in the last section, the adjustment in real wages in the face of changing demand and supply for labour has contributed to the lessening of the impacts of economic crisis in Indonesia. Some workers are willing to remain in the same jobs with reduced wages or salaries or fringe benefits; some may readily accept other lower paid jobs to replace the recently lost jobs, the situation which is quite similar to Thailand. It is also true that the effects of the crisis hit different people in different regions differently. In the case of Indonesia, it was found that both urban and rural areas of Java have been hit the hardest during the crisis. In terms of the reduction in real wages, Java as a whole has experienced the largest fall compared to all other regions except East Timor. As for the distribution of income (or rather, distribution of expenditure) as a result of the crisis for the whole of Indonesia, a recent study by the World Bank has found that the fourth quartile of the population (who could be called the upper middle class) was hit harder during the crisis. Measured in terms of the changes in the mean values of per capita expenditure, it was found that these top quartile households experienced a 54 per cent reduction in mean per capita expenditure, whereas the lowest or poorest quartile experienced a 120 per cent increase in mean per capita expenditure. Relatively speaking, therefore, the higher income group suffers from the crisis more than the lower income group in Indonesia.

But, what happened to the absolute change in poverty level as a result of the economic crisis? Certainly it gives no comfort to see that the lower income group was hit less hard than the higher income group if the lower income group themselves experience an absolute fall in income and plunge into poverty. In the case of Indonesia, several studies using different poverty cut-off incomes (or expenditures) and methodologies have shown that the crisis has increased poverty incidence in Indonesia.<sup>2</sup> This increase in poverty incidence could range from 11 to 18 per cent in one study, whereas it could increase from 20 to 33 per cent in another study. In terms of population, these estimates show that the crisis has led to an additional 60 to 70 million people living under the poverty line in Indonesia in the two years from 1996 to 1998.<sup>3</sup>

In Korea, poverty problem per se is not so pertinent or severe as the country has grown very rapidly in the last few decades, and the basic form of dire poverty has been eliminated. The statement that is often cited is that the combination of high growth and full employment permitted a reduction in the poverty rate among urban households from 20.4 per cent in 1975 to 7.4 per cent in 1995. (World Bank, 2000a, p. 1). However, according to the existing studies on poverty (which are not many), it was shown that the incidence of poverty did increase during the crisis. In a World Bank study in 1999 (World Bank, 1999a), it was found that the urban headcount index has increased from 8.5 per cent in the fourth quarter of 1997 to 15.8 per cent a year later.<sup>4</sup> The distribution of income, however, remains fairly equal throughout the crisis.

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<sup>2</sup> For a summary of different findings from various studies, see Feridhanusetyawan, 1999, pp. 41-46.

<sup>3</sup> This level of poverty is considered by many scholars and researchers as too high. The recent information for the Indonesian Bureau of Statistics gave the number of the poor as a result of economic crisis in 1998 as 37.5 million or about 18 per cent of the total population for that year.

<sup>4</sup> By regional standard, this incidence is quite high. But that could be because this World Bank study used a national poverty line equivalent to about US\$4/day, whereas in other countries, the equivalent poverty line is only US\$1/day or US\$2/day.

In Thailand where poverty studies are probably more developed than in Indonesia or Korea, the impacts of the crisis on poverty and income inequality are quite thoroughly investigated. In a study by Kakwani for NESDB, the Thai Planning Board (NESDB, 1998 and 1999), he has shown that the crisis has raised the incidence of poverty from 11.4 per cent in 1996 to 12.9 per cent in 1998, or an increase of about 13.2 per cent. However, because there was already a long-term trend of poverty reduction prior to the crisis, the impact of the crisis must take this trend into account in measuring the true effects of the crisis. By estimating the expected value of the poverty incidence along the usual trend, which should be about 10.8 per cent in 1998, the actual poverty incidence of 12.9 per cent would mean that the true impact of the crisis on poverty in Thailand is about 19.7 per cent, not 13.2 per cent.<sup>5</sup> The distribution of income as a result of the crisis has shown that the share of income of the lowest quintile (poorest) has remained unchanged at 4.8 per cent, whereas the share of the highest income (richest) has increased from 53.3 per cent in 1996 to 53.9 per cent in 1998. The remaining three quintiles in the middle have shown a declining share. The outward stretch of income of the richest quintile obviously increases the disparity of income distribution, and the Gini ratio of income distribution in Thailand in 1998 was estimated at 0.481, a slightly worsening trend compared to 0.477 in 1996.

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<sup>5</sup> This may be large, but if the natural trend of poverty reduction is very strong, then the worsening poverty due to crisis could reverse as soon as the economic recovery takes place. There is another way of measuring the impacts of the crisis on income and welfare of the Thai people, however. Kakwani in his work for the NESDB had shown that, compared with 1996, the average real income of the Thai people fell from 3,830 baht in 1996 to 3,753 baht in 1998, or a fall of about 2 per cent. In terms of per capita welfare, however, the per capita welfare defined as the percentage of excess income households have over their poverty lines fell from 386 per cent in 1996 to 370 per cent in 1998 or a fall of 7.9 per cent. See NESDB, 1999



## 2.4 Health, Education and Other Social Activities

What have been the impacts of the crisis on health, education and other social services available to the people in the three affected countries? Prior to the crisis, the health status of the Thai people could be considered satisfactory compared to a decade ago. The crisis which raised the prices of goods and services, including health services, and the reduction of real wages and income, has caused a change in the behaviour of the Thai people. A Brooker Group study in 1999 had shown that the household real expenditure on medical care among Thai families declined by 41 per cent between 1996 and 1998 (Knowles, Pernia and Racelis, 1999, p. 26). This can be looked upon as a natural reaction to a fall in income when the main component must be spent on food first. A similar situation happens in Indonesia where the percentage of children ages 0-15 who used any health services during the past month declined from 26 to 20 per cent, the proportion of people reported ill who sought care at a public health centre declined from 47 to 37 per cent. Both in Thailand and Indonesia, there were reports of increases in health problems related to the stress of life under crisis. In Korea, the government expenditure on health declined sharply between 1997 and 1998, but the number of outpatient visits in 1998, both public and private, increased by 3.8 per cent. This is an increase at a lower rate compared to the increase in 1997 of 9.5 per cent. (Knowles, Pernia, and Racelis, 1999).

Impacts on education probably receive greater concern from the public because the long-term effects of education can be very large. In both Indonesia and Thailand, there is little, if any, evidence that the crisis has led to reduced primary school enrolments. But for secondary education, there were speculations of increased school dropouts during the crisis, because poor parents found it difficult to keep their children in school. However, available macro-level statistics are conflicting on this point. In Thailand, the Socio-Economic Survey in 1998 has shown that between 1996 and 1998, the number of students not attending schools declined in all levels of education including secondary schools. It is possible that the lack of job opportunities under economic crisis pre-

vent the parents from withdrawing their children from schools to work. Besides, as will be shown later, the government has done its best to keep these children in school.<sup>6</sup> In Korea, the crisis is associated with declines in kindergarten, primary, and middle school enrolment but with increases in high school and tertiary school enrolments. This probably reflects not only a strong income effect (parents tend to regard kindergarten as a luxury), but also decreased demand for childcare due to the decline in female employment. (Knowles, Pernia and Racelis, 1999, p. 26). The increase in high school and tertiary education could reflect the decline in the opportunity cost of schooling (foregone earnings) due to steep increase in unemployment.

Apart from health and education there are few other activities having a clear cut crisis impacts. In Indonesia, the crisis brought about racial conflicts between the indigenous Indonesians and the Chinese Indonesians, and religious conflicts between the Muslims and the Christians. None of these had happened in Thailand where the relative lack of civic violence helped the government to concentrate on the economic solutions to the crisis. Nevertheless, there was a major political change in Thailand as a direct result of the crisis. One coalition government fell, and another, more popular coalition government took over. Change in government also took place peacefully and democratically in Indonesia during the crisis, which should be looked upon as a positive improvement in a situation where the former government stayed in power for more than 30 years and was a cause of the current economic difficulties. Political environment and development was much more congenial and conducive to problem solving in Korea than in the other two affected countries. Korea had just elected a new popular leader who was resolute and decisive in his handling of the economic crisis. And

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<sup>6</sup> In Indonesia, the situation is similar, that the nation-wide data source like the Susenas did not provide convincing data on the changes in enrolment rates for children. However, the smaller size Indonesian Family Life Survey (IFLS) did show a significant dropout rates among children.

this is one of the reasons Korea has come out of the crisis sooner than Thailand or Indonesia.<sup>7</sup>

### **3. Policy Responses to the Social Impacts**

All three affected countries exhibit similar origins of the crisis, the courses or developments of the crisis, and the solutions to the crisis. All three had allowed large inflows of foreign capital, largely with short-term maturity. A large part of this money was spent on speculative purposes rather than productive purposes. In the meantime, the financial sector became weak and inefficient, and the authorities' roles in regulatory and supervisory controls became lax. The corporate governance was also weak and non-transparent, while the public authorities were committed to some policies that were untenable, such as keeping fixed exchange rate regime while allowing free flows of capital. The crisis had manifest itself through sudden and large outflow of capital, creating a tremendous squeeze on domestic liquidity. Inability to raise or secure funds or credits from both within and outside the countries, caused many firms to go under, releasing large pool of unemployed workers. The lack of productive activities led to the contraction of the economy, further exacerbating the fall in domestic demand and more job losses. The loss of, or inadequate foreign reserves, had forced the three countries to seek help from the IMF and other countries, notably Japan. Similar prescriptions were given by the IMF: stabilise the exchange rate to reduce outflows of old capital and introduce new one, quick but thorough reform and restructuring of the financial sector, liquidating ailing and non-viable financial institutions, recapitalise the existing ones, increase exports, maintain domestic inflation, and so on. These are to maintain macroeconomic stability. To generate growth that will bring the economy out of recession, the government cut taxes and increased public spending through

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<sup>7</sup> For an excellent account on how President Kim Dae Jung handled the Korean economic crisis, see Haggard, Pinkston and Seo (1999).

borrowing and other commercial activities, and tried to increase private investment, and helped bring about quick corporate debt restructuring so that the financial sector can start expanding credits again. Countries that succeeded in accomplishing the above tasks first, were more likely to get back to normal first. And it appears that Korea had won the gold medal for the first place, with Thailand coming second, and Indonesia struggling to follow suit.

In order to cope with the social impacts described above, each country has devised different ways and means of tackling those social problems. Each country will depend on its own internal policy arrangements using domestic resources and external assistance through various assistance programs provided by international organisations or governments.<sup>8</sup> It is interesting to analyse the ways each of the three countries had conducted its policy to mitigate or alleviate the social costs of the crisis. We will start with Korea, the most successful case, followed by Thailand and Indonesia.<sup>9</sup>

### 3.1 Korea

It is not far from the truth to say that the most direct social outcome of the crisis in Korea is the incidence of unemployment. Therefore, it was natural that the government would attack these unemployment problems first. According to Cho (1999) and ILO (1998), the Korean government had devised a framework to deal with unemployment problems consisting of measures to accomplish four objectives: job keeping, job creation, job placement and training, and social protection. The job-keeping program was designed to help viable, profit-making but troubled firms from collapsing. Under this program, support was given to firms both in

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<sup>8</sup> See Annex 1 for the details of external assistance to the three affected countries by various international organisations and governments.

<sup>9</sup> The following account draws on several studies which address the issues of mitigating the social costs of economic crisis. Examples of these studies are Lee and Rhee (1998), TDRI (1999), World Bank (1999 and 2000), Gupta et al. (1998), ILO (1998), Lee (1998), Cho (1999), Feridhanusetyawan (1999), and Marshall (1999).

financial terms as well as through the Employment Insurance System (EIS). The job-creation program aimed to create new jobs out of public investment projects, public works projects, and support for business startups. In 1999, this job-creation program had received the top priority among unemployment policies. For job-placement and training programs, the aim was to enhance the employability of the unemployed, and to expand the networking system for job matching and eventual reemployment. Finally, the social protection program aimed to provide financial support and protection to the unemployed by unemployment benefits, employment-related loans, public works, and so on.

As can be seen from Annex 2, Korea is already blessed with a well-functioning system of social insurance and social protection programs that provide safety nets to the unemployed when the crisis hit in late 1997. The Employment Insurance System (EIS) was established in December 1993 and became fully functioning in July 1995. When the EIS came into effect, there were already 3 other social assistance systems in operations: the Industrial Accident Insurance system (1964), the Medical Insurance system (1977), and the National Pension system (1988). The EIS began by covering regular workers in enterprises with more than 30 employees. The size of enterprises to be covered was reduced to 10 employees in January 1998, and 5 employees in July 1998. The unemployment benefits consist of job-seeking allowances and employment promotion allowances. To receive unemployment benefits, the claimant must be insured for more than 6 months, and the benefits are granted for 60 to 210 days depending on the claimant's insured employment period and age.

As reported by the World Bank (2000a), the Korean government had spent more than 1.1 trillion won in 1998 on training, employment subsidies and other active labour market policies. Moreover, income support was provided for the 450,000 elderly through a new non-contributory and means-tested 'social pension' for those over 65 years of age. The government is also undertaking a series of fundamental reforms to improve labour market flexibility and greater coverage, and ensure

the profitability, transparency and accountability of the pension system. In all, the Korean government has succeeded in implementing its social assistance and social protection systems during the time of crisis, which had substantially reduced the social costs of the crisis in this country.

### **3.2 Thailand**

One of the first social policies to cope with the crisis in Thailand was also employment-related policies. The Thai government has asked various employers and firms to keep their workers as long as possible. The Ministry of Labour and Social Welfare created 15 teams of officials to help enterprises in Bangkok and vicinity to find alternatives to lay-offs. The Ministry also maintained active employment centres around Bangkok and vicinity to register unemployed workers and provide job information. It appeared that, during crisis the labour-management relations were working smoothly to find the least painful solution to the crisis. On general government expenditures earmarked for social problems, the government, in its agreement with the IMF, would maintain the levels of spending on health and education (while spending on other items were cut back). Below is an account on how several social policies in Thailand have been conceived and implemented.

#### **(a) Social Investment and Social Safety Net Programs**

This current crisis has hurt many people in different sectors differently. In the public sector, public servants who are normally paid less than their counterparts in the private sector may lose some of the fringe benefits that come with the jobs such as medical allowances, supplementary salaries based on special qualifications or entertainment expenses due to government budget cuts, but they will maintain their jobs. The long-standing policy of the government to freeze the size of the public officials by allowing no more than 2 per cent increase in of the existing work force annually actually helps those who remained in the jobs because the government does not need to incur heavy additional costs to look after new officials. In order to absorb the overflow of unem-

ployed workers from the private sector, the government may be pressured to increase the employment in the public sector. The political officials or politicians will be forced to be more careful in their spending as they will be subject to increasing scrutiny. They are believed to be more socially conscious as well. The adoption of the new Constitution in October 1997 would not have gone smoothly if the economy was not in crisis and the politicians are having more time to engage in political debates.

As for the private sector, three groups of people could be divided: the professional and business people and entrepreneurs in the modern production, service or financial sectors, the wage and salary workers, and the farmers. The first group of people are those who are most adversely affected by the current economic crisis because economic slowdown is translated into less economic activities and income. Those who had borrowed overseas without exchange rate cover would find that their foreign debts increased along with the depreciation of the baht. If the understanding creditors allow for debt rollovers, then the hardship could be postponed. If not, the debt burden could bankrupt their businesses. The tight monetary policy and credit crunch could also work against these business entrepreneurs as they face the genuine danger of debt default if necessary credit is not ready to come by. That is why ready credit in time of recession is so important to maintain the activities of the economy. The increase in business bankruptcies as a result of current economic crisis, had prompted the Thai government to amend its bankruptcy law. The new Bankruptcy Law permits corporate reorganisation as opposed to liquidation, increases the scope for out-of-court settlements, and also ensures fair treatment of creditors.

The wage and salary workers are also affected by job losses. These people may benefit from availability of credits but only through the regeneration of jobs and employment by the first group of people. Lack of unemployment benefits in the Thai social security system make these workers very vulnerable to hardship. Some may have to find a new job completely in order to survive, and a majority of these unemployed wage and salary workers may have to depend on their families at least

in the short-run until business activities improve, or a new job is found. Wage workers who came from the countryside may choose to return to the rural areas where family supports are still available.

Finally, the farmers may be the only group of people who could benefit from this crisis. Assuming that their production inputs are mainly land and labour which have little import contents, their products would be in greater demand through depreciated exchange rate (as is actually the case with regard to the production and exports of high-quality rice). However, they could not escape the impacts of inflation brought about by the increase in the costs of production of other necessary household goods and services. Moreover, the burden of the farm sector in the rural areas in looking after members of the families who had gone to work in cities but returned home after job losses could put a great deal of pressure on these farmers who are generally the least well off in the society.

It is the concern for the welfare of these farmers and retrenched industrial workers that mainly prompted the government to set up a separate social investment and social safety net programs. These programs can be considered as consisting of four important elements as follows.

#### **(b) Social Investment Project (SIP)**

The government has received about 21.7 billion baht-worth of loans and grants from the World Bank, ADB, the OECF, UNDP and the Australian Agency for International Development (AusAID) in a project called Social Investment Project (SIP) for the purpose of helping those who are affected by the crisis. The immediate aims of the SIP are to reduce the rate of unemployment in the country by creating jobs, and to improve the delivery of social services by strengthening local governments and local authorities; inviting participation from the local people, and in encouraging transparency in policy making.

The first part of the funds will be managed by the Ministry of Finance with money to go to the Ministries of Interior, Public Health, and Labour and Social Welfare; the Tourist Authority of Thailand, and the Bangkok Metropolitan Administration (BMA). The second portion



(about 6 billion baht) will go to the Social Investment Fund (SIF) and the Regional Urban Development Fund (RUDF) and will be managed by the Social Fund Office (SOFO) under the responsibility of the Government Savings Bank. The SIF with the budget allocation of about 5 billion baht will be administered as grants to community development projects to be carried out by the community organisations, whereas the RUDF with about 1 billion baht-budget will be used in the form of loans to municipal administrations throughout the country to spend on urban development projects. The SIF projects will be proposed and prepared by local community organisations under the guidelines provided by the SOFO. These projects may be classified into four types or categories. Project Type 1 will aim at encouraging career education and community economic development. Project Type 2 is about social welfare and community security. Project Type 3 concerns natural resources and environmental management and cultural support. And finally, Project Type 4 will promote community capability and networking development.

### **(c) Social Sector Program Loan**

The government had decided to borrow 500 US dollars from the ADB to be used in the reform of the three areas, namely in labour market and social welfare, in education, and in public health. The first lot of 300 US dollars has already been disbursed, with the remaining 200 US dollars to be withdrawn soon. On labour market and social welfare, the government had agreed with the ADB to do the followings: (a) set up Centres for Retrenched Workers in various provinces to provide information on new employment and job training; (b) extend the social security coverage to retrenched workers to include sickness outside work, maternity leave, invalidity and death benefits; (c) increase competition in labour market by reconsidering the overall labour and minimum wage policies; (d) encourage investment in on-the-job training along the line supported in the Job Training Act B.E. 2537, and the participation of the private sector in the skill development of labour.

On education, the government will increase the budget for education loans to help students who may have to leave schools due to financial problems. The quality of education may be improved also by the improvement in instruction techniques and qualifications of instructors, and the greater autonomy in administrative and financial matters, and the greater role of the private sector in educational services and administration. On public health, the government had decided to help the poor and the low-income by increasing the budget on the Public Assistance Scheme from 4.9 to 7.0 billion US dollars, and increasing the number of Health Cards from 1.5 to 2 million which are expected to cover 9 million people by March 1998. ADB had also agreed to give 700,000 US dollars-worth of technical assistance to each of the three areas.<sup>10</sup>

#### **(d) Other Social Programs**

On health and education, over the last two years, a growing body of evidence is showing that families and government programs acted to cushion impacts in health and education: (NESDB, 1998).

- Health and education outcomes have shown little or no discernible declines from past positive trends.
- Families rapidly and substantially adjusted their spending and savings strategies to cope with less income security and to preserve health and education attainments.
- The Ministries of Education and Health adjusted expenditure priorities and supplemented sensitive programs to sustain service availability at or above pre-crisis levels and to contain out-of-pocket costs to Thai families.
- Use of public health and education services expanded during the crisis, including basic services, and school dropouts in particular show a limited or negligible crisis response depending on the data source.

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<sup>10</sup> With the NESDB responsible for social reform project, the National Educational Council for educational management and finance project, and the Ministry of Public Health for health management and finance project.

- Although precise targeting of the poor and unemployed proved difficult to accomplish, government programs and budgets during the crisis appear to have preserved or bettered pre-crisis efficiency levels for costs and revenue.

The Bank for Agriculture and Agricultural Cooperatives (BAAC) is well known for its role in providing rural credits for farmers throughout the country. During this current crisis, the government has plans to help the sugarcane farmers during the 1998:99 growing season by agreeing to provide 4 billion baht to the BAAC to purchase on discounted basis the so-called sugar support cheques from sugar farmers. Other agricultural-related projects include, for example,

- The 3.3-billion-baht structural adjustment loan (SAL) project from the World Bank to create rural employment;
- The 12.3-billion-baht credit program from the ADB to promote occupations related to agriculture;
- The 6.23-billion-baht loan project from the OECF to promote reforestation and the protection of the environment;
- The change in the BAAC Act to increase its role in the promotion of the agricultural occupation and the augmentation of farm income, and the raising of the quality of farm life in general.

In December 1998, Mr. Obuchi Keizo, the Japanese Prime Minister announced at the ASEAN Summit meeting in Hanoi that Japan would provide up to 30 billion US dollars as an additional funding for countries beset by the current economic crisis to be spent in the social sectors to help alleviate the adverse impact on the people. This new aid package is later widely known as the New Miyazawa Initiatives or Miyazawa Plan. Thailand was quick to make use of this New Miyazawa Initiatives. A special loan from this plan plus additional loan from the World Bank combined with the reduction in the VAT rate from 10 to 7 per cent

and a general reduction in energy costs formed an economic stimulus package that was launched by the government on March 30, 1999. This economic stimulus package which amounted to some 53 billion baht is expected to quicken the recovery process of the Thai economy. It should be noted that the spending under the Miyazawa Initiative is very much for the purpose of generating domestic demand and providing needed social safety nets for the poor people. In this respect, it may be difficult to judge the effectiveness of these funds through efficiency criteria. The spending of funds by local governments involving public works projects may not result in long-lasting products or structures but at least poor people can engage in gainful employment and earn needed income to survive for the time being.

In all, it may be seen that the government has tried its utmost to help the farmers, the retrenched workers, the poor and the needy during this economic crisis. Although the amount of money involved in this social investment and social safety net objective is much less than that involved in the rescue of the financial sector, it is still much larger than at any other time in its modern history. The amount of debts to the World Bank, ADB, and OECF is expected to take the Thai government many years to pay off. But this indebtedness is justified in the sense that this will go to help the majority of the Thai people who had no part in bringing about the collapse of the Thai economy. However, the government still has to be careful about the efficiency in the spending of this borrowed money because it has to be paid back by the future generation of the Thai people.

From the above account, it is quite obvious that the Thai government has been trying very hard to cope with the worsening crisis and to get the economy out of it as quickly as possible. Two conditions outside the good functioning of the above prescribed policies had worked to help the present government. One is the relative stability of the government, and the other is the patience of the Thai people. Despite the coalition nature of the government, the leadership of Mr. Chuan Leekpai as the Prime Minister and head of the coalition had commanded respect

from both within the country and outside it for his honesty and hard work. The patience of the Thai people had helped the government to concentrate on the work at hand without having to worry about popular protests or strikes. Thailand is lucky to still have a large rural sector where a large portion of industrial workers can always return. The Thai government's faithful adherence to external obligations and liberal regimes of trade and investment had helped to win back foreign confidence quickly.

### 3.3 Indonesia

In comparison with Korea and Thailand, the labour unions of Indonesia had had relatively little role in working with the government or business enterprises to find alternatives to lay-offs. That could be because the unions themselves were weakened by the loss of membership resulting from lay-offs. However, Indonesia has a good alternative in public works program which was maintained even before the crisis. During the crisis, this public works program which came under direct Presidential Initiative (*Inpres Desa*) was expanded. An estimated 1.7 trillion rupiahs (about US\$800 million) were used to support urban and rural job creation and micro-credit programs. The funding for this program came in part from loans and grants from the World Bank, Asian Development, and bilateral agencies, and the implementation of the program was done in cooperation with NGOs and other community-based groups.<sup>11</sup> To lessen the impact of price changes, the government has made extensive use of subsidies and other measures to control consumer prices during the crisis. The government has imported an estimated 5.35 million tons of rice in April 1999 and sell this imported rice to the poor at a subsidy. Apart from rice, corn, sugar, soybean meal, and fish meal also received across-the-board subsidies through the state food import monopoly. Exchange subsidies were also provided for some items such as medicines, while other straight subsidies were provided for such items as fertiliser, livestock feed, and gasoline. Several price increases on public utilities

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<sup>11</sup> For details of assistance from outside funding agencies, see Annex 1.

were postponed. Other policies include: (Gupta et al., 1998; World Bank, 2000; Knowles, Pernia, and Racelis, 1999).

- The rural credit schemes to reach 6 million families, including subsidised credit for small and medium-scale enterprises and rural cooperatives.
- The distinctly pro-poor public spending on primary and secondary schools. The program calls for the implementation of 9 years of education for all children. Provision is also being made for scholarships for needy students.
- The elimination of a number of restrictions and taxes on interprovincial and intraprovincial trade to facilitate the flow of goods across regions.
- To minimise the potential declines in enrolment, the government launched ‘Stay-in-School’ campaign to keep children in school through mass media advertisements. In addition, block grants will be given to the poorest 40 per cent of primary and junior secondary schools to compensate for reduced fees and increased costs.

Despite a clear-cut program as mentioned above, it was reported that efforts to maintain government spending on health and education at constant real levels have not been successful. (World Bank, 1999c). Total public sector health spending fell by 8 per cent in 1997:98, and a further 12 per cent in 1998:99. The gap between the budgetary allocation and actual expenditure has also increased since the crisis from 10 per cent in 1994-97 to 32 per cent in 1998:99.

In closing, we would like to point out a similarity between households in Thailand and Indonesia in coping with the economic crisis, a similarity that is missing in the case of Korea. As pointed earlier, Korea is already an industrialised economy where more than 90 per cent of the workers are engaged in industrial and service activities, whereas in Thailand and Indonesia, an overwhelming proportion of the

population is still engaged in agriculture. As such, a vast agricultural sector in Indonesia and Thailand acts as a cushion that absorbs the shock of economic crisis. Retrenched workers in cities returned to their respective home towns and villages in the countryside, living with their families or relatives for a while until a new job comes along. As the costs of living in the countryside are low, these rural households were not unduly burdened with temporary unemployed workers. Had it not been for this rural-based economy still prevalent in Indonesia and Thailand, the adverse impacts of the crisis would have been much more severe. For Korea, it was fortunate that Korea already had had an extensive social security system installed, so that when the crisis struck, this social security system served as a cushion or shock absorber for the unemployed workers for the same effects as the existence of large agricultural sector. However, it must be noted that eventually the social security system a la Korea must also be adopted and implemented in Thailand and Indonesia.

#### **4. Measures for the Future**

The financial turned economic crisis in East Asia has been very costly to many of these East Asian countries. The economic contraction has been most severe in Indonesia when the rate of growth of GDP in 1998 was minus 13.2 per cent, followed by Thailand with minus 9.4 per cent, and Korea with minus 5.8 per cent (World Bank 1999a). The last two sections had talked about the social costs and policies to contain them. In contrast, this section will focus on the need to strengthen policies and institutions over the medium term so as to reduce the risk of similar crises in the future, or better handle the social consequences of these crises if they are inevitable. Measures for the future consist of 5 sets of policy reforms as follows.

##### **4.1 Strengthening Financial and Corporate Sectors**

As the crisis in each of the three countries was brought about mainly by the failure of the financial and corporate sectors to observe

and maintain standard best practices in financial management and good corporate governance, it is only natural that the avoid similar mistake in the future would be to reform these sectors. As part of the IMF conditionalities regarding the reform of the financial sector in all three countries, the three government closed down weak and non-viable banks and finance companies, forced the remaining institutions to recapitalise and maintain standard capital adequacy ratios, tightened the rules concerning banking regulations and supervision, changed the existing bankruptcy laws to make companies more aware of the risks of bad business practices but, at the same time, to give a fair chance to both creditors and debtors to restructure their debts with a greater chance of business rehabilitation. There were several mergers and re-organisations in the banking sector, many with foreign participation, all these for the strengthening of the financial and corporate sector in the three respective countries. Once the reform is successful and regularly maintained, it is expected that the crisis of the type and nature that happened in the three economies in the latter part of 1997 should not happen again. Thus, the social costs of the crisis would not occur.

## **4.2 Strengthening the Public Sector**

While it is true that the current crisis was brought on mainly by the undoing of the private sector, the government could have helped revert the crisis if it were stronger or more judicious. The monetary authorities in each country need to be more astute in their supervision and regulation of the financial sector. The fiscal authorities also need to be more alert to the efficiency of revenue collection and public spending. The privatisation of state-owned enterprises which seems to be the adopted policy in the three countries continues to unfold. This not only will give the government additional revenue to pay back massive loss of public funds through rescue efforts in the financial sector prior to the crisis, the management by the private sector could bring in greater efficiency in their operations. Greater dependence on market forces with regard to such policies as flexible exchange rates and increased free trade and



competition should strengthen the public sectors of the three countries so that they can play a better role at preventing crisis in the future or resolving that crisis quickly when it occurs.

### **4.3 Strengthening the Social Welfare System**

Perhaps there is less need to strengthen the social welfare system in Korea than that in Indonesia and Thailand. As mentioned earlier, Korea already has a well-functioning social welfare system in place and working, and it had demonstrated its efficacy during the current crisis. However, even for Korea, there are rooms for improvement. As for Thailand, the present social security system is working well so far, but it is still not a fully funded system, so there is a risk of future problems if there are a drastic change in the way the social security funds are being invested or used up. The most urgent need to strengthen the current social security system of Thailand is probably for the authority to include the unemployment insurance in the present social security system as soon as possible. Many proponents of this unemployment insurance are already using the current crisis to point to the weakness in the social safety net of the country, and suggest the adoption of this system of social protection.<sup>12</sup> What is true for Thailand regarding the need for more extensive social welfare system is also true for Indonesia. As these two countries mature into more industrialised economies, the social security and welfare systems as found in Korea would be the likely outcomes.

### **4.4 Strengthening Specific Policies for Specific Vulnerable Groups**

There are several ways people can suffer from social consequences of a crisis. The most obvious that we had talked about above are the health and education problems of those who were affected by the crisis. The government needs to monitor these problems closely and make necessary

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<sup>12</sup>See, for example, the strong argument for unemployment insurance by Lee (1998).

adjustments as appropriate. For example, in Thailand, the government has to lower the eligibility level of those who would be provided with free medical cards in time of crisis; students whose parents were unable to pay for their tuition during the crisis were still permitted to remain in school; those who might be pulled out from school to help with the family earning were encouraged to stay on through financial incentives; and so on. These specific policies must be readily in place and readily adjustable for specific vulnerable groups of people such as the elderly, women and children. Another good example in the case of Thailand: elderly people of 65 and over who are without supporters will now receive a 50 per cent increase in their monthly allowance, on top of other social services like a free medical service for life. A 9-year compulsory secondary education is now enforced in Thailand, not only to equip future workforce with higher skill and knowledge but also to reduce the incidence of child labour. To protect poor parents from the loss of foregone income of their children through compulsory schooling, the government is considering equivalent compensation through free textbooks, uniforms, and school lunches. The strengthening of specific policies like these should help lessen the adverse impacts of a future crisis.

#### **4.5 Strengthening Social Capital of the Country**

At least for Indonesia and Thailand, the current crisis has shown that coping mechanisms of households in these two countries are working well. The closeness of family ties which provided necessary assistance in time of trouble was clearly evident in the two countries. Beyond the families there were also communities which were also ready to provide help if and when needed. The strong social ties and cohesion via the families and communities create a network that defines the relationship among the people therein that can be called ‘social capital’. And the strengthening of this social capital is a necessary step that a country should pursue in order to prepare any current or future crisis. The interest in the strengthening of this social capital is now a subject of various studies. In its latest study on the economic crisis in Thailand, the World

Bank had put the issues of social capital in the forefront of the policy for the future (see, World Bank, 2000). Perhaps the following findings from its latest study are indicative of the importance of social capital as measure for the future. These are some of the important implications for social protection (World Bank, 2000, pp. 6-7):

- The informal safety net, and by implication the publicly funded safety net, has substantial gaps and rips, through which some Thai families have fallen far;
- The long-term costs to society of these safety net failure may be high, as the effects are to put more children, families and adults either in orphanages, in prison, in medical care, or sustained welfare support;
- For any future economic downturns, it will be vital to protect families against calamitous declines in income that seem to have led to such behaviours during this crisis. Future social protection programs, therefore, need to reach families directly, as well as indirectly via community organisations;
- To ensure the effective design of these programs, policy-makers need a better understanding of the characteristics of those whom existing social institutions were unable to protect—and why they were unable to avail themselves of the existing safety net;
- The apparent success of community based institutions during the crisis, at least in terms of new activity, may provide a promising avenue for social protection which could merit additional government support;
- Family based coping mechanisms remain effective, and any new social protection initiatives should reinforce the priceless Thai values of self reliance and family cohesion.

## 5. Summary and Conclusions

In this paper I have attempted to delineate the social consequences of the current economic crisis in Thailand, Indonesia and Korea, and the ways these social impacts are dealt with by the government. Four major types of impacts were discussed, namely the change in prices and consumption, the change in employment and labour markets, the change in income, poverty and income inequality, and the change in health, education and other social activities. In all three countries, the loss of employment has brought about the loss of income, which affects the normal way of life of the people, such as the way they look after their health and education. Each country has its own ways of dealing with these problems, but the common features in all three countries seem to be that the government would try to carry out necessary financial and economic reforms in the country, to bring back domestic and international confidence as soon as possible so that the economy gets back to the original development path. In the meantime, the government helped provide relief through short-term employment assistance and public-works type activities, and necessary safety net facilities either through unemployment benefits or other social services that reduce the hardship experienced by the people under crisis.

In conclusion, it could be said that the current financial turned economic crisis in many of these East Asian countries had given very valuable lessons to, not just the affected countries, but other non-affected countries as well. The financial sector in the future needs to be strong and disciplined; companies need to operate under more transparent and more cautious systems; the government or public sector needs to provide better regulatory and supervisory frameworks, and be more efficient in its ordinary functions; a more advanced form of social security especially unemployment insurance needs to put in place to provide employment safety net to workers in increasingly industrialised economies; specific policies need to be constantly adjusted to changing social situations so that vulnerable groups of people are constantly being attended to; and

finally the family and community ties and cohesion need to be promoted to form a strong foundation for social capital that can better withstand the future shock of a crisis. These are the ways to mitigate the social costs of economic crisis in East Asia now and in the future.

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**Table 1:** Salient Economic Statistics of East Asian Economies

	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999e
<b>1. Economic growth (% change of real GDP in domestic currency)</b>													
China	11.6	11.3	4.1	3.8	9.2	14.2	13.5	12.6	10.5	9.6	8.8	7.8	7.5
Korea	11.0	10.5	6.1	9.0	9.2	5.4	5.5	8.3	8.9	6.8	5.0	-5.8	8.5
Singapore	9.7	11.6	9.6	9.0	7.0	6.6	12.8	11.4	8.1	7.6	8.9	0.3	5.5
Taiwan	12.7	7.8	8.2	5.4	7.6	6.8	6.3	6.5	6.0	5.7	6.8	4.7	5.5
Indonesia	5.3	6.4	9.1	9.0	8.9	7.2	7.3	7.5	8.2	7.8	4.7	-13.2	0.0
Malaysia	5.4	9.9	9.0	9.0	9.6	8.9	9.9	9.2	9.8	10.00	7.5	-7.5	4.5
Philippines	4.3	6.8	6.2	3.0	-0.6	0.3	2.1	4.4	4.7	5.9	5.2	-0.5	3.0
Thailand	9.5	13.3	12.2	11.2	8.6	8.1	8.4	9.0	8.9	5.9	-1.8	-10.36	4.0
<b>2. Inflation (% change in GDP deflator or consumer prices)</b>													
China	5.1	12.1	8.8	5.7	6.7	7.9	14.6	19.9	13.2	5.9	0.8	-1.1	-1.5
Korea	5.5	7.5	5.6	10.0	10.9	7.6	7.1	7.7	7.1	3.9	3.2	5.3	1.0
Singapore	0.7	5.7	4.7	4.8	3.9	1.5	3.3	2.8	2.9	1.1	1.4	-1.0	0.4
Taiwan	0.6	0.9	3.3	3.8	3.9	3.9	3.5	1.9	1.9	2.7	1.9	2.5	0.5
Indonesia	15.4	13.0	10.0	7.7	8.8	5.4	8.9	7.8	9.9	8.7	12.6	73.0	18.0
Malaysia	5.5	3.6	4.5	3.8	3.6	2.4	4.0	3.9	3.6	3.7	3.3	9.1	3.5
Philippines	7.5	9.7	9.0	13.0	16.5	7.9	6.8	10.0	7.6	7.7	6.0	10.8	8.0
Thailand	4.7	5.9	6.1	5.8	5.8	4.5	3.3	5.2	5.8	3.9	4.3	9.6	-1.0



**Table 1:** Salient Economic Statistics of East Asian Economies (cont.)

	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999e
<b>3. Annual average exchange rates (% change of domestic currency units per US\$)</b>													
China	-7.2	0.0	-1.1	-21.3	-10.1	-3.5	-4.3	-33.2	3.2	0.5	0.3	0.1	0.0
Korea	7.16	12.5	8.9	-5.1	-3.5	-6.1	-2.7	-0.1	4.2	-4.1	-15.4	-32.1	17.9
Singapore	3.4	4.7	3.2	7.6	4.9	6.1	0.8	5.8	7.8	0.5	-5.0	-11.3	-1.3
Taiwan	19.2	11.0	8.3	-1.8	0.3	6.6	-4.7	-0.3	-0.1	-3.5	-4.3	-14.2	3.7
Indonesia	-22.0	-2.5	-4.8	-4.0	-5.5	-3.9	-2.7	-3.4	-3.9	-4.0	-19.5	-71.0	27.6
Malaysia	2.5	-3.8	-3.3	0.1	-1.6	8.0	-1.0	-1.9	4.8	-0.5	-10.6	-28.3	3.3
Philippines	-0.9	-2.5	-3.0	-10.6	-11.5	7.7	-5.9	2.7	2.7	-1.9	-11.0	-27.9	4.6
Thailand	2.2	1.7	-1.6	0.5	0.3	0.5	0.3	0.7	0.9	-1.7	-19.2	-24.2	9.3
<b>4. Per capita GDP in current US\$</b>													
China	296	364	401	342	353	415	510	455	581	671	730	772	809
Korea	3,279	4,336	5,242	5,893	6,823	7,208	7,847	9,055	10,874	11,422	10,360	6,908	8,846
Singapore	7,990	9,698	11,270	13,556	15,494	17,417	20,050	23,835	28,019	30,057	30,913	26,694	27,341
Taiwan	5,184	6,191	7,417	7,870	8,725	10,221	10,630	11,408	12,214	12,683	13,065	11,918	12,986
Indonesia	446	514	577	639	703	750	838	923	1,038	1,146	1,072	461	683
Malaysia	1,943	2,067	2,210	2,432	2,649	3,107	3,420	3,704	4,294	4,764	4,624	3,268	3,567
Philippines	575	638	698	708	709	808	810	933	1,055	1,152	1,118	867	987
Thailand	957	1,149	1,323	1,535	1,739	1,944	2,156	2,461	2,828	3,031	2,485	1,834	2,044

**Table 1:** Salient Economic Statistics of East Asian Economies (cont.)

	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999e
<b>5. Exports:GDP (%)</b>													
China	12.19	11.45	10.65	14.80	16.23	16.32	14.45	21.97	21.03	21.03	23.07	21.65	-
Korea	40.18	38.41	32.73	29.09	27.35	27.65	27.54	27.82	30.20	29.50	34.73	48.74	42.62
Singapore	170.99	191.53	185.53	184.05	175.58	168.61	167.40	173.20	177.20	170.45	162.85	152.41	-
Taiwan	57.32	54.34	49.59	46.76	47.40	43.38	44.24	44.11	48.78	48.55	49.24	49.07	45.51
Indonesia	23.93	23.78	24.29	25.27	25.55	27.88	26.75	26.51	26.31	25.82	27.86	53.69	35.27
Malaysia	63.76	67.32	73.10	74.47	77.83	75.98	78.92	89.15	95.42	91.58	93.20	114.36	120.52
Philippines	26.64	28.39	28.12	27.51	29.60	29.13	31.36	33.82	36.36	40.51	49.06	55.42	51.61
Thailand	28.89	33.01	34.92	34.13	35.96	36.97	37.82	38.76	41.79	39.22	47.96	58.54	56.67
<b>6. Imports:GDP (%)</b>													
China	12.10	12.46	11.75	12.04	13.37	15.28	16.36	20.56	19.32	18.88	18.56	17.30	-
Korea	32.42	30.47	30.02	30.26	30.36	29.14	27.49	28.96	31.68	33.61	35.75	35.82	35.16
Singapore	170.79	184.41	177.71	177.13	164.86	158.75	159.50	158.16	161.62	156.81	150.12	134.64	-
Taiwan	39.97	43.61	42.09	41.78	42.87	41.29	42.35	42.21	46.81	44.71	46.49	47.06	43.73
Indonesia	22.40	21.09	21.41	23.73	24.10	24.96	23.77	25.37	27.65	26.44	28.13	43.81	27.51
Malaysia	49.64	56.95	66.87	72.42	81.49	74.63	79.02	90.75	98.02	90.19	92.27	92.56	93.25
Philippines	26.22	26.94	30.27	33.28	32.59	34.03	39.80	40.13	44.18	49.29	59.43	59.15	53.44
Thailand	28.33	34.40	37.49	41.65	42.51	40.98	41.56	43.60	48.52	45.50	46.57	42.60	44.21

**Table 1:** Salient Economic Statistics of East Asian Economies (cont.)

	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999e
<b>7. Current account balance:GDP (%)</b>													
China	0.09	-0.95	-0.96	3.09	3.27	1.33	-1.93	1.27	0.23	0.89	3.31	3.06	1.20
Korea	7.38	7.97	2.41	-0.79	-2.82	-1.25	0.29	-0.96	-1.74	-4.42	-1.71	12.64	5.84
Singapore	-0.53	7.69	9.93	8.51	11.40	12.05	7.31	16.32	17.25	15.86	15.67	20.86	20.80
Taiwan	17.65	8.27	7.65	6.82	6.95	4.03	3.16	2.70	2.10	4.04	2.54	1.35	2.08
Indonesia	-2.77	-1.57	-1.09	-2.61	-3.32	-2.00	-1.33	-1.58	-3.18	-3.37	-2.27	4.22	3.52
Malaysia	8.00	5.29	0.81	-1.98	-8.51	-3.66	-4.47	-6.07	-9.53	-4.56	-4.78	12.95	12.00
Philippines	-1.34	-1.03	-3.42	-6.08	-2.28	-1.89	-5.55	-4.60	-2.67	-4.77	-5.30	1.97	9.26
Thailand	-0.73	-2.68	-3.46	-8.53	-7.71	-5.66	-5.08	-5.59	-8.07	-8.08	-2.01	12.68	8.03
<b>8. External debts:GDP (%)</b>													
China	11.00	10.59	10.00	14.26	14.84	14.99	14.30	18.52	16.86	15.78	16.33	-	-
Korea	34.81	24.11	18.89	18.59	18.17	18.26	18.17	23.36	23.51	25.32	30.09	41.75	30.61
Singapore	19.09	15.25	14.07	10.38	10.31	9.48	9.71	10.95	10.06	10.77	13.04	-	-
Taiwan	19.09	14.39	11.45	11.04	10.74	9.37	10.44	10.87	10.40	10.07	11.84	-	-
Indonesia	69.31	60.91	58.55	61.06	62.07	63.26	56.44	60.95	61.54	56.71	63.12	154.37	-
Malaysia	70.97	52.64	41.90	34.82	34.76	33.84	39.09	40.73	38.66	39.34	47.13	63.27	57.94
Philippines	89.72	76.37	67.30	69.01	71.45	62.30	66.10	61.50	51.04	48.46	55.30	73.31	63.62
Thailand	39.61	34.16	31.63	34.34	38.56	39.14	41.62	44.89	49.15	49.79	62.02	76.76	62.33

**Table 1:** Salient Economic Statistics of East Asian Economies (cont.)

	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999e
<b>9. International reserves (US\$ million)</b>													
China	16,305	18,541	17,960	29,586	43,674	20,620	22,387	52,914	75,377	107,039	142,762	149,188	153,996
Korea	3,584	12,347	15,214	14,793	13,701	17,121	20,228	25,639	32,678	34,037	20,368	51,975	66,147
Singapore	15,227	17,073	20,345	27,748	34,133	39,885	48,361	58,177	68,695	76,847	71,289	74,928	75,941
Taiwan	76,748	73,897	73,224	72,441	82,405	82,306	83,573	92,454	90,310	88,038	83,502	90,341	101,652
Indonesia	5,592	5,048	5,454	7,459	9,258	10,449	11,263	12,133	13,708	18,251	16,587	22,713	26,181
Malaysia	7,435	6,527	7,783	9,754	10,886	17,228	27,249	25,423	23,774	27,009	20,788	25,559	29,962
Philippines	968	1,003	1,417	924	3,246	4,403	4,676	6,017	6,372	10,030	7,266	9,226	12,741
Thailand	2,940	3,098	3,854	4,117	4,611	4,899	5,179	5,184	4,899	4,985	3,944	6,241	6,504
<b>10. Current revenue:GDP (%)</b>													
China	18.39	15.79	15.76	15.84	14.57	13.08	12.56	11.16	10.67	10.91	11.62	12.44	-
Korea	16.51	16.94	17.10	17.52	16.60	17.45	17.96	18.47	18.73	19.81	20.02	21.05	-
Singapore	28.10	27.84	27.35	28.62	29.75	31.71	31.67	31.02	33.75	36.91	40.05	42.26	41.19
Taiwan	11.97	12.50	14.45	16.28	12.84	13.94	13.62	13.80	13.53	12.63	12.37	13.30	-
Indonesia	16.71	15.37	16.00	18.75	16.64	17.30	17.02	17.38	17.69	17.41	18.46	-	-
Malaysia	22.38	23.78	24.02	24.79	25.20	26.05	24.21	25.30	22.90	22.97	23.32	19.94	18.60
Philippines	14.73	13.19	15.87	16.19	17.12	17.69	17.44	18.05	18.77	18.80	19.25	17.26	16.01
Thailand	15.54	16.55	17.62	18.85	18.46	18.06	18.14	18.72	18.57	18.51	17.94	15.46	14.69

**Table 1:** Salient Economic Statistics of East Asian Economies (cont.)

	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999e
<b>11. Current expenditure:GDP (%)</b>													
China	18.91	16.69	16.70	16.63	15.67	14.05	13.40	12.39	11.67	11.69	12.40	13.60	-
Korea	12.78	12.58	13.42	13.79	13.84	14.42	14.08	13.87	13.00	13.25	13.66	15.47	-
Singapore (exp. + loan)	32.85	21.65	26.17	18.85	19.49	19.78	17.71	18.76	20.37	22.28	30.49	25.87	23.34
Taiwan	9.58	9.95	10.38	10.28	10.88	12.99	12.18	11.09	10.90	11.15	11.04	10.57	-
Indonesia	11.26	10.05	10.22	10.98	9.17	9.14	9.14	8.90	7.93	9.24	10.88	-	-
Malaysia	24.89	22.96	21.84	21.02	20.94	21.29	18.71	17.94	16.44	17.29	15.85	15.67	15.27
Philippines	13.99	14.04	15.43	16.52	15.75	15.90	15.37	15.26	15.17	16.26	17.32	17.57	-
Thailand	13.90	12.41	12.18	11.41	11.32	11.55	11.27	10.54	10.39	10.83	10.85	12.39	12.78
<b>12. Overall fiscal balance:GDP (%)</b>													
China	-0.53	-0.90	-0.94	-0.79	-1.10	-0.97	-0.85	-1.23	-0.99	-0.78	-0.78	-1.16	-
Korea	0.43	1.07	0.19	-0.68	-1.61	-0.48	0.61	0.64	0.56	0.42	-1.27	-3.77	-
Singapore	-4.75	6.19	1.18	9.77	10.27	11.93	13.96	12.27	13.38	14.62	9.56	16.39	17.85
Taiwan	0.02	0.08	1.34	1.89	-2.24	-5.44	-3.95	-1.75	-1.11	-1.35	-1.69	0.15	-
Indonesia	-3.48	-2.29	-1.37	-0.85	-0.71	-1.13	-0.52	1.00	2.22	1.44	1.39	-	-
Malaysia	-7.59	-3.56	-3.24	-2.89	-1.95	-0.82	0.21	2.26	0.84	0.72	2.35	-1.76	-7.29
Philippines	-2.65	-3.08	-2.26	-3.66	-2.35	-1.31	-1.59	0.92	0.53	0.26	-0.01	-1.89	-4.67
Thailand	-0.43	2.34	3.27	4.83	4.30	2.57	1.88	2.68	3.02	0.94	-0.32	-2.78	-3.23

**Table 1:** Salient Economic Statistics of East Asian Economies (cont.)

	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999e
<b>13. M1:GDP (%)</b>													
China	38.24	36.76	34.50	37.79	41.58	43.98	48.39	46.07	43.77	45.17	51.49	54.43	52.01
Korea	9.01	9.13	9.61	8.90	10.05	10.01	10.47	10.05	10.30	9.45	7.73	7.92	6.91
Singapore	25.67	23.58	23.62	22.96	22.22	23.16	24.58	21.95	21.37	20.96	19.31	19.27	19.07
Taiwan	48.29	55.21	52.37	44.71	44.87	45.45	47.61	49.23	45.89	45.82	45.69	44.20	44.96
Indonesia	10.20	9.62	11.45	11.30	10.68	9.73	10.23	10.85	10.37	9.70	10.96	9.26	9.37
Malaysia	19.45	19.31	20.19	20.36	19.91	20.17	24.27	23.78	23.34	23.88	22.48	19.03	19.95
Philippines	7.88	7.66	8.78	8.63	8.63	8.70	9.75	9.45	10.21	10.73	11.00	10.72	10.13
Thailand	10.18	9.52	9.41	8.95	8.87	8.82	9.34	9.53	9.28	9.19	9.10	9.72	10.44
<b>14. M2:GDP (%)</b>													
China	66.52	64.32	67.38	79.16	86.04	91.33	100.30	100.34	103.87	112.10	123.37	132.95	134.19
Korea	35.92	36.76	39.31	38.43	38.68	39.18	40.44	41.18	40.80	42.61	44.90	57.52	60.01
Singapore	86.31	82.99	88.58	93.05	94.04	94.71	88.21	88.10	85.98	86.77	86.66	113.77	113.88
Taiwan	121.26	134.04	141.91	143.99	153.88	165.12	173.12	183.53	185.80	186.88	185.64	187.91	186.20
Indonesia	27.23	28.11	32.59	40.13	39.77	42.16	43.41	44.93	48.05	52.15	55.42	60.31	57.82
Malaysia	73.71	69.36	70.69	70.46	71.11	75.98	81.19	82.04	89.39	93.88	103.66	104.22	102.17
Philippines	27.03	28.79	32.35	34.05	34.48	36.18	42.14	45.66	50.36	54.46	61.61	60.69	56.93
Thailand	62.20	61.30	65.00	70.03	73.10	74.81	79.08	77.85	79.09	80.86	91.88	102.59	101.58

**Table 1:** Salient Economic Statistics of East Asian Economies (cont.)

	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999e
<b>15. Lending rate (%)</b>													
China	7.92	9.00	11.34	9.36	8.64	8.64	10.98	10.98	12.06	10.08	8.64	6.39	5.85
Korea	10.00	10.13	11.25	10.00	10.00	10.00	8.58	8.50	9.00	8.84	11.88	15.28	8.86
Singapore	6.10	5.96	6.21	7.36	7.58	5.95	5.39	5.88	6.37	6.26	6.32	7.44	5.80
Taiwan	9.00	9.00	10.38	10.00	8.62	8.30	8.00	8.00	7.80	7.53	7.65	7.87	7.84
Indonesia	21.67	22.10	21.70	20.83	25.53	24.03	20.59	17.76	18.85	19.22	21.82	32.15	23.07
Malaysia	8.19	7.25	7.00	7.17	8.13	9.31	9.05	7.61	7.63	8.89	9.53	10.61	6.79
Philippines	13.34	15.92	19.27	24.12	23.07	19.48	14.68	15.06	14.68	14.84	16.28	16.78	10.12
Thailand	10.71	11.58	12.25	14.42	15.40	12.17	11.17	10.90	13.25	13.40	13.65	14.42	8.50

Source: Adapted from "Recent Trends and Prospects for Major Asian Economies", *East Asian Economic Perspectives*, vol. 11, Special Issue, February 2000.

## Annex 1: Initiatives by International Agencies in Response to the Crisis in Indonesia and Thailand

### Indonesia

Asian Development Bank	
ADB1	<ul style="list-style-type: none"> <li>● Social Protection Sector Development Program Loans US\$300: Program Loan US\$ 100m, Project Loan US\$200m-approved July 1998</li> </ul>
	- primary aim is to mitigate effects of the economic crisis on the poor by:
	... protecting access by vulnerable groups to essential social services, especially education and health
	... monitoring quality of services provided to the poor
	... initiating sustainable policy reforms related to provision of key social services
	- support for specific initiatives in project provinces to :
	... maintain school enrolment (supporting the Government's Back to School Campaign)
	... protect health and nutritional status of the poor, particularly mothers and children under two years
	... maintain quality of health and education services
	... maintain family planning services for the poor
ADB2	<ul style="list-style-type: none"> <li>● Health and Nutrition Sector Development Program Loans US\$300m: Program Loan US\$100m, Project Loan US\$ 200-approved March 1999</li> </ul>
	- parallel OECF of US\$300m (see Japan 4 below)
	- primary aim is to mitigate effects of the economic crisis on the poor by:
	... protecting access by vulnerable groups to essential health and nutrition services
	... monitoring quality of social services provided to the poor
	... initiating sustainable policy reforms related to provision of health and nutrition services
	- support for targeted initiatives in project provinces to:
	... protect health and nutritional status of the poor, particularly infants and children under two years
	... maintain quality of health services
	... strengthen communicable disease control programs (targeting tuberculosis and malaria) and maintain immunisation programs
	... maintain family planning services for the poor
	- includes block grants to health centres and village midwives, complementary feeding for infants, supplementary feeding for young children and for pregnant and lactating women, and support for increasing numbers of street children



## Annex 1: Initiatives by International Agencies in Response to the Crisis in Indonesia and Thailand (cont.)

### Indonesia

Asian Development Bank	
ADB3	<ul style="list-style-type: none"> <li>● Proposed Basic Education Sector Loan, US\$100m, 2000</li> </ul>
	- improve management and institutional capacity for basic education at the district and school level
	- expand access to junior:secondary education
	- maintain universal access to primary education
ADB4	<ul style="list-style-type: none"> <li>● Proposed Reproductive Health Loan, US\$50m, 2000</li> </ul>
	- increase the demand and supply for reproductive health care
	- enhance the reproductive health of women and men
	- improve the knowledge of adolescents on reproductive health issues
ADB5	<ul style="list-style-type: none"> <li>● Proposed Woman and Child Protection and Development Loan, US\$50m, 2001</li> </ul>
	- strengthen protection for vulnerable woman and their children, while maintaining a focus on the longer-term (health, nutrition and psychosocial) development potential of the child
World Bank	
WB1	<ul style="list-style-type: none"> <li>● West Java Basic Education Loan, US\$103.5m-approved March 1998</li> </ul>
	- increased scholarships to address threat of drop-outs by poor students at primary and secondary level (US\$50.9m).
	- improve education quality through teacher training, etc.
WB2	<ul style="list-style-type: none"> <li>● Junior Secondary Education Project Loans in East Java, East Nusa Tenggara, Central Indonesia and Sumatra, US\$301m-approved June 1998. (Restructured loans 4042-IND, 4062-IND, 4095-IND)</li> </ul>
	- scholarships to poor children and school grants for poor areas. Projected to benefit 25 million students.
WB3	<ul style="list-style-type: none"> <li>● Policy reform Support Loan, US\$1 billion-60 per cent disbursed July 1998, rest in February 1999</li> </ul>
	- including budget support for basic education (scholarships for poor children and block grants for poor schools, supporting the Government's Back to School Campaign)
	- financing essential drugs and provision of equipment to sustain hospital emergency work
	- design of sustainable medium term health strategy
WB4	<ul style="list-style-type: none"> <li>● Early Childhood Development Loan, US\$21.5m, - approved July 1998</li> </ul>
	- emergency complementary food to protect children under two years against malnutrition effects (US\$10.8m)

# Annex 1: Initiatives by International Agencies in Response to the Crisis in Indonesia and Thailand (cont.)

## Indonesia

Asian Development Bank	
	- in longer-term, assist nutritional and educational wellbeing of children under six years
WB5	● Basic Education Projects in Sumatra, Sulawesi and Eastern islands, IBRD Loans and IDA Credits totaling US\$128.9m - approved April 1999
	- scholarships for poor children to maintain enrolment and transition rates in primary and junior secondary schools
	- grants to schools in poor areas to meet essential operational and maintenance costs
WB6	● Social Safety Net Adjustment Loan, US\$600m - approved May 1999
	- safeguard key SSN programs by creating an overarching national structure, comprising a government team, a joint government and civil society control team, and an independent civil society monitoring function
	- improve program design, including better geographical targeting to reach the poor more effectively
WB7	● Second Policy Reform Support Loan, US\$500m - approved May 1999
	- in part, to support policy reforms related to SSN budget expenditures crucial to the poor
UNDP	
UNDP1	● Assessing the Impact of the Economic Crisis on Education, US\$60000 grant, May-September 1998
	- rapid assessment, with UNICEF and UNESCO, for Education Ministry: analysis of data on drop-out rates, absenteeism and schools' financial requirements
UNDP2	● Supply and Production of Generic Drugs and Their Ingredients in Indonesia, US\$132 000 grant – approved August 1998
	- to fund UNIDO analysis of ways for Ministry of Health to improve the supply of essential medicines at affordable prices, including domestic production of some ingredients.
UNDP3	● Rapid Humanitarian Assistance to Support Indonesia's Recovery, US\$200 000 grant, June 1998-July 1999
	- in response to drought and the economic crisis, nutrition supplements for infants aged 6-24 months to assist them achieve optimal growth and brain development
UNICEF	

## Annex 1: Initiatives by International Agencies in Response to the Crisis in Indonesia and Thailand (cont.)

### Indonesia

Asian Development Bank	
UNICEF1	<ul style="list-style-type: none"> <li>● Back to School Campaign AusAID US\$495 000 grant and UNICEF US\$150 000 grant, June – December 1998</li> </ul>
	<ul style="list-style-type: none"> <li>- support for the campaign to prevent drop-outs, involving publicity for scholarships and block grants to schools</li> </ul>
UNICEF2	<ul style="list-style-type: none"> <li>● Complementary Food Initiative, US\$930 000 grants (from UNICEF, UNDP, CIDA, AusAID and Denmark), April-December 1998</li> </ul>
	<ul style="list-style-type: none"> <li>- food packages for 6-24 month old infants and education of mothers on feeding practices</li> </ul>
United Nations Population Fund	
UNFPA1	<ul style="list-style-type: none"> <li>● Appeal for Emergency Assistance for Contraceptives, US\$34m, required for FY1998-99</li> </ul>
	<ul style="list-style-type: none"> <li>- government subsidy of contraceptives continued due to economic crisis</li> </ul>
	<ul style="list-style-type: none"> <li>- UNFPA provided US\$3m grant and USAID US\$7.4m, leaving US\$34m shortfall</li> </ul>
	<ul style="list-style-type: none"> <li>- responses have included CIDA Can\$3m grant</li> </ul>
UNFPA2	<ul style="list-style-type: none"> <li>● Reducing Maternal Mortality through Strengthening Blood Supply Management and Obstetrics Services</li> </ul>
	<ul style="list-style-type: none"> <li>- US\$6m grants sought from donors over two years, as economic crisis exacerbated existing problems</li> </ul>
UNESCO	
UNESCO1	<ul style="list-style-type: none"> <li>● Community Based Education Program for Parent-Teacher Associations, US\$ 100 000 grant, August 1998-August 1999</li> </ul>
	<ul style="list-style-type: none"> <li>- training program (pilot project) to support the Government's Back to School Campaign by strengthening community support for schools, especially targeting PTAs</li> </ul>
UNESCO2	<ul style="list-style-type: none"> <li>● Study on Health and Nutrition at Primary School Level</li> </ul>
	<ul style="list-style-type: none"> <li>- develop a model for better integration and delivery of health and nutrition at a primary school level</li> </ul>
World Food Programme	
WFP1	<ul style="list-style-type: none"> <li>● Emergency Operation in Indonesia, US\$135.8m during May 1998-June 2000</li> </ul>
	<ul style="list-style-type: none"> <li>- originally implemented in rural areas in eastern Indonesia to benefit drought victims-those surviving on one meal a day and who lost their means of livelihood</li> </ul>

## Annex 1: Initiatives by International Agencies in Response to the Crisis in Indonesia and Thailand (cont.)

### Indonesia

Asian Development Bank	
	- Operation expanded to urban areas in mid-1999, including to provide a take-home ration to children to encourage their continuing school attendance, and to support orphanages and shelters for street children
Japan	
Japan1	● Emergency Grant Aid to purchase medical supplies, powdered milk and other essential goods in short supply because of the economic crisis, Y4b, March 1998
Japan2	● Rice Aid: 700 000 tons as grant assistance in 1998 in response to the economic crisis
Japan3	● OECF Social Safety Net Loan, Y45.2b - approved March 1999
	- counterpart funds to be used by the Government of Indonesia for its SSN programs
	- follows on a similar loan of Y170b, disbursed in 1998
Japan4	● OECF Health and Nutrition Sector Development Program Loan, Y35.3b – approved March 1999
	- cofinancing with ADB (see ADB2 above)
United States	
USAID1	● Basic health, medical and nutritional needs of women and children
	- the focus of much of USAID's SSN support
	- includes the provision of supplies and support to government's micro-nutrient supplementation programs and to child feeding programs run by NGOs
USAID2	● Improved food security for the most needy families
	- US\$50m committed for purchasing and distributing basic foodstuffs in 1999
Canada	● Canada Fund for Local Initiatives – budget approved annually
	- included small-scale education and health projects (for example: "Staying in School", East Timor, Can\$55 258)
Australia	
AusAID1	● Support for World Food Programme Emergency Operation (see WFP1 above), A\$23m
	- A\$16m in FY 1997:98 and 1998:99 (wheat swapped for rice) and A\$7m in FY 1998:99 (rice)

## Annex 1: Initiatives by International Agencies in Response to the Crisis in Indonesia and Thailand (cont.)

### Indonesia

Asian Development Bank	
AusAID2	<ul style="list-style-type: none"> <li>● Emergency Medical Supplies, over A\$4m during September 1998-March 1999</li> </ul>
	<ul style="list-style-type: none"> <li>- in response to drought and the economic crisis, supply to the eastern provinces essential drugs and medical supplies</li> </ul>
AusAID3	<ul style="list-style-type: none"> <li>● Assistance in Establishing a Social Monitoring and Early Response Unit (SMERU), A\$10 000 in FY 1998-99</li> </ul>
	<ul style="list-style-type: none"> <li>- to provide rapid assessments to government agencies, donors, NGOs and civil society</li> </ul>
	<ul style="list-style-type: none"> <li>- assessments on crisis related trends and conditions, the areas and vulnerable groups affected by the crisis, critical needs of affected groups, and effectiveness of ongoing safety net programs</li> </ul>
AusAID4	<ul style="list-style-type: none"> <li>● Assistance to the Back to School Campaign - A\$5.1A</li> </ul>
	<ul style="list-style-type: none"> <li>- A\$800 000 to UNICEF-managed media publicity in FY 1997-98 – see UNICEF1 above</li> </ul>
AusAID5	<ul style="list-style-type: none"> <li>● Assistance with World Bank Rapid Social Assessment of Poverty Programs, A\$120 000 in FY 1998-99</li> </ul>
	<ul style="list-style-type: none"> <li>- conducted an initial assessment of several worst affected areas to assist the World Bank and GOI in strengthening design, implementation and review of SSN programs</li> </ul>
New Zealand	
NZODA1	<ul style="list-style-type: none"> <li>● Social and Community Development Fund (NZ\$750 000)</li> </ul>
	<ul style="list-style-type: none"> <li>- Supports local NGOs for community social development activities, including humanitarian assistance</li> </ul>
NZODA2	<ul style="list-style-type: none"> <li>● Complementary Feeding Initiative (NZ\$500 000)</li> </ul>
	<ul style="list-style-type: none"> <li>- in support of UNICEF's complimentary food initiative – UNICEF2 above</li> </ul>
ASEM Trust Fund: World Bank	
ASEM1	<ul style="list-style-type: none"> <li>● Scholarships and School Grants to Primary and Junior Secondary Schools, US\$637 000 – approved July 1998</li> </ul>
	<ul style="list-style-type: none"> <li>- help keep children from poor families from dropping out of school in the next five years through grants to the schools and scholarships to poor families</li> </ul>
ASEM2	<ul style="list-style-type: none"> <li>● Monitoring and Assessing the Impact of the Crisis on Basic Education Outcomes, US\$224 160 – approved August 1998</li> </ul>

## Annex 1: Initiatives by International Agencies in Response to the Crisis in Indonesia and Thailand (cont.)

### Indonesia

Asian Development Bank	
	- analyse survey data to identify new interventions to alleviate the impact of the crisis
ASEM3	● The Impact of the Crisis on Basic Health Outcomes: diagnosis, consultation and dissemination, US\$243 500 - approved August 1998
	- assess the impact of the crisis on basic health care and identify new or modify existing interventions to alleviate the impact
ASEM4	● Responding to the Crisis: Supply and Distribution of Pharmaceuticals, US\$280 200 – approved October 1998
	- help the government target pharmaceutical relief effort at the poor, with industry analysis, regulation review, assessment of production control and strategic alternatives identification
ASEM5	● Developing a Strategy for the Education System to Respond to the Crisis, US\$725 500
	- consult all involved groups and develop a cooperative strategy for education
ASEM6	● Rapid Analysis of New SUSENAS Poverty and Socio-Economic Data, US\$161 750
	- develop capacity within the government, universities and local experts to analyse the SUSENAS database
<b>Thailand</b>	
Asian Development Bank	
ADB1	● Social Sector Program Loan, US\$500m - approved March 1998
	- US\$300m first tranche released immediately to mitigate short-term impact of economic crisis, especially on the poor and disadvantaged
	... including to reduce drop-outs from schools, protect budget support for health care and support laid-off workers
	- US\$200m second tranche to support structural reforms, including in human resource development, reducing inefficiencies in social services and shifting health budget focus towards programs for women and children
	- three associated TA grants (US\$2.1m from the ADB's Japan Special Fund) also approved to
	... monitor and evaluate the social impact of the crisis
	... monitor the welfare of women, ethnic minorities and the poor

## Annex 1: Initiatives by International Agencies in Response to the Crisis in Indonesia and Thailand (cont.)

### Indonesia

Asian Development Bank	
	... identify causes of inefficiencies in health and education services (including evaluation of the student loan scheme)
ADB2	● Proposed Non-formal Secondary Education Loan, US\$100m-2000
ADB3	● Proposed Social Development Loan, US\$250m - 2001
ADB4	● Proposed TA to strengthen role of National Education Commission, US\$500 000 – 2000
World Bank	
WB1	● Social Investment Project Loan, US\$300m - approved July 1998
	- total project cost US\$ 460m, with cofinancing by OECF (Y13.4b), UNDP (US\$500 000) and AusAID (A\$350 000)
	- US\$153m over two years to support existing government programs, including low income health cards, skills development for 15-16 year olds and local job training for lower secondary school students
	- US\$133m to improve access of poor and unemployed to basic social services and employment opportunities
	- US\$133m Social Investment Fund to finance community based projects over three years
WB2	● Skills Development Project Loan, US\$195m
	- complements Secondary Education Quality Improvement Project to support reform, including universal enrolment for 12 year education
WB3	● Poverty study, due for completion 2000
UNDP	- reassess poverty line measurement, update 1996 household survey data and evaluate impact of public expenditure on poverty
UNDP1	● Assistance in Support of the Social Investment Project (see WB1 above), US\$500 000
UNICEF	
UNICEF1	● Media campaign against school drop-outs, December 1998-April 1999, US\$10 000
UNICEF2	● Thailand: Impact of the Economic Crisis on Children, June-October 1998, US\$ 20 000
WHO	
WHO1	● Health Intelligence Unit, May 1998-January 2000
	- established to monitor the impact of the crisis on health status and health services, including:

## Annex 1: Initiatives by International Agencies in Response to the Crisis in Indonesia and Thailand (cont.)

### Indonesia

Asian Development Bank	
	... weight at birth, nutritional deficiencies of children under five and anemia situation among pregnant women
	... the financial problems of government and private hospitals
	... the availability, quality and price of medicine and medical supplies and equipment
Japan 1	● OECF Economic Recovery and Social Sector Program Loan, Y30b – approved March 1999
	- counterpart funds to be used by the Thai government in part to expand the SSN underpinning economic structural adjustments
Canada	
CIDA1	● Research study into the social impact of the crisis
	- undertaken by the Thai Development Research Institute with CIDA funding
CIDA2	● Canada Fund for Local Initiatives - budget approved annually
	- includes small-scale education and health projects, for example:
	... in 1997-98 'Responding to Child Abuse and Neglect' Training Workshop (Can\$5390) and Vocational Skills Learning Centre in the Bunted Hills (Can\$ 19 019)
	... in 1998-99 Adolescent Counseling Centre and Outreach Programme (Can\$ 10 830) and Scholarship and Educational Support Project (Can\$23 288)
CIDA3	● Governance and Restructuring Project II, Can\$1.5m over three years 1999:00-02
	- includes Financing Decentralisation of Education and Other Social Programs
Australia	
AusAID1	● Assistance in support of the Social Investment Project (see WB1 above), A\$300 000 in FY 1997-98
AusAID2	● Assisting Women and Children Affected by the Economic Crisis (Friends of Women Foundation), A\$ 25 583
	- includes a counseling and support centre providing essential information on legal, social and welfare services and rights, alternative livelihood training, and savings groups and cooperatives
AusAID3	● Urban Children and Youth Development, A\$37 621 in FY 1997-98 and A\$42 950 in FY 1998-99



### **Annex 1: Initiatives by International Agencies in Response to the Crisis in Indonesia and Thailand (cont.)**

#### **Indonesia**

Asian Development Bank	
	- assist children and youth groups to participate in solving the problems associated with slum communities in Chiang Mai
AusAID4	● Sustainable Self-reliance Village Development (Dharma Jarik Youth and Women's Development Group), A\$6379
	- provided for youth and women's groups in Ban Mae Lu to find alternative income generating activities in response to the economic crisis
	... including vegetable gardening, food processing, bakery and indigenous souvenir production
ASEM Trust Fund: World Bank	
ASEM1	● Recession, Family Income and Staying in School, US\$493 000 – a pproved August 1998
	- monitor and research the causes of school drop-out and non-enrolment, and identify coping strategies

**Source:** The Australian Agency for International Development (AusAID), Impact of the Asia Crisis on Children: Issues for Social Safety Nets, Canberra, August 1999.

**Annex 2: Existing Social Programs in Korea, Indonesia, and Thailand**

Korea	Indonesia	Thailand
<p><b>A. Old age, Disability Death</b></p> <p>First law: 1973. Current law: 1986, as amended 1989, 1993, 1995, and 1998. Type of program: Social insurance system. Exchange rate: U.S.\$1.00 equals 1,244 won.</p> <p><b>Coverage</b> All residents aged 18-59 (effective April 1, 1999) Separate systems for public employees, private school teachers, the self-employed, and military personnel.</p>	<p>First law: 1951 (provident fund). Current law: 1977. Type of program: Provident fund system (lump-sum benefits only). Exchange rate: U.S.\$1.00 equals Rupiah (Rp) 7,200.</p> <p><b>Coverage</b> Establishments with 10 or more employees or a payroll of Rp 1 million or more a month. Coverage being extended gradually to smaller establishments and to casual and seasonal workers. Special systems for civilian public employees and military personnel.</p>	<p>First and current law: 1990. Revised 1999. Disability and death benefits payable starting in 1991. Old-Age Benefits payable starting in 1998. Type of program: Social insurance system. Exchange rate: U.S.\$1.00 equals 35.97 baht.</p> <p><b>Coverage</b> Employees of firms with 10 or more workers. Voluntary coverage for the self-employed, starting September 2, 1994. Separate programs for civil servants and private school teachers. Employees of foreign governments or international organizations, and Thais working abroad are exempt.</p>
<p><b>Source of Funds</b> <b>Insured person:</b> 4.5% of covered monthly earnings (i.e., standard monthly remuneration) (effective April 1, 1999). Farmers, fishermen, self-employed, and the voluntary insured: 3% of monthly covered earnings. <b>Employer:</b> 4.5% of payroll. Government: <b>Partial cost of administration and of programs for farmers and fishermen.</b></p>	<p><b>Source of Funds</b> <b>Insured Person:</b> 2% of earnings. <b>Employer:</b> 3.7% of payroll (plus 0.3% of payroll for death benefit). <b>Government:</b> None.</p>	<p><b>Source of Funds</b> Insured person: <b>1% of employee's wages.</b> <b>Employer:</b> 1% of employee's wages. <b>Government:</b> 1% of employee's wages. Above contributions finance old age pension and child allowance (temporary rate will be increased up to 3%). Contributions for disability and death, see sickness and maternity contributions, below.</p>

## Annex 2: Existing Social Programs in Korea, Indonesia, and Thailand (cont.)

Korea	Indonesia	Thailand
A. Old age, Disability Death		
<p><b>Qualifying Conditions</b></p> <p><b>Old-age pension:</b> Full Old-Age Pension: aged 60, with coverage of 20 or more years, and no longer engaged in gainful activity. No retirement test if aged 65 and older. (Pensionable age to be raised to age 65 by 2033.)</p> <p><b>Reduced Old-Age Pension:</b> Reduced benefit if aged 60 or older with coverage of 10-19 years, and no longer engaged in gainful activity. No retirement test if aged 65 and older.</p> <p><b>Active Old-Age Pension:</b> aged 60-64, with coverage of 10 or more years, and still engaged in remunerative activity.</p> <p><b>Early Old-Age Pension:</b> aged 55-59, with</p> <p><b>Coverage of 10 or more years, and no longer engaged in gainful activity.</b></p> <p><b>Disability pension:</b> Disabled as result of disease or injury occurred during the insured period, and has paid contributions over 2:3 of the insured period, plus period as recipient of disability pension. (Cases when employee is exempted from contributing to the program while still “insured”: student aged 23 or older, person rearing more than 1 child under age 3, patient hospitalized for 3 months or longer, retries, unemployed, and others.)</p> <p><b>Survivor pension:</b> Payable if insured has paid contributions over 2:3 of the insured period up to death of insured. Eligible survivors are: widow or widower [if the latter, must be aged 60 or older, or with at least 2<sup>nd</sup> degree of disability</p>	<p><u>Qualifying Conditions</u></p> <p><b>Old-age benefit:</b> Age 55; 66 months of contributions.</p> <p><b>Disability benefit:</b> Total incapacity for work and under age 55.</p> <p><b>Survivor benefit:</b> Deceased was insured and under age 55 at the time of death.</p>	<p><b>Qualifying Conditions</b></p> <p><b>Old-age pension:</b> Age 55 and 180 months contributions.</p> <p>Disability benefits: Same as for cash sickness benefits. Must already have received cash sickness benefits for period of one year.</p> <p><b>Survivor benefit: Funeral grant: 1 month contribution in 6 months prior to death. Death must have resulted from a non-occupational injury or illness (if occupational injury or illness, see Work injury, below).</b></p>

## Annex 2: Existing Social Programs in Korea, Indonesia, and Thailand (cont.)

Korea	Indonesia	Thailand
<p><b>A. Old age, Disability Death</b></p> <p>(see disability pension below) at any age before the eligibility date]; parents and grandparents (including parents or grandparents of spouse) of insured person, aged 60 years or older, or with at least 2nd degree of disability; children and grandchildren aged under age 18, or at any age if with at least 2nd degree of disability.</p> <p>Lump-sum death benefit: dependent survivor (including siblings and collateral relatives within the 4th degree, such as nephews and nieces) not otherwise eligible for survivor benefit or lump-sum refund.</p> <p>Lump sum refund: Payable if insured aged 60 or older, has less than 10 years' coverage; or if the insured of formerly insured person dies without eligibility for a pension, or if insured has less than 10 years' coverage and has emigrated and lived permanently outside of Korea, and/or did not qualify as Korean national.</p> <p><b>Old-Age Benefits</b></p> <p><b>Old-age pension:</b> Basic Pension Amount (BPA) equals 1.8 times the sum of average covered monthly earnings of all insured persons at the end of the preceding year, and the average monthly covered earnings of the insured person over entire contribution period. Full Old-Age Pension: BPA plus 5% of monthly benefit for each insured year in excess of 20 years.</p> <p>Reduced Old-Age Pension: 47.5% of BPA, plus 5% increment of BPA for every insured year in excess of 10 years of coverage.</p> <p>Active Old-Age Pension: 0.5-0.9 times 47.5% of BPA, depending on age of pensioner, plus 5% increase of BPA for every insured year in excess of 10 years of coverage.</p>	<p><b>Old-Age Benefits</b></p> <p><b>Old-age benefit:</b> Lump sum equal to total employee and employer contributions paid in, plus accrued interest.</p>	<p><b>Old-Age Benefits</b></p> <p><b>Old-Age pension:</b> 15% of average wage of the last 60 months. In case the insured person has paid contribution for over 180 months, the rate will increase 1% per additional twelve months of contributions above 180 months.</p> <p>Lump sum refund: employee contribution if less than twelve months contributions. Employer and employee contributions plus interest if more than twelve months contributions. (In case the insured person can not complete 180 months contribution.)</p>

**Annex 2: Existing Social Programs in Korea, Indonesia, and Thailand (cont.)**

Korea	Indonesia	Thailand
<p><b>A. Old age, Disability Death</b></p> <p>Early Old-Age Pension: 0.75 times 47.5% of BPA, plus a 5% increase of BPA for every year delayed in claiming benefits. Additional benefit for dependents (child, parent or spouse) of recipients of full, reduced, or early old-age pension. Lump sum refund: Employee and employer contributions paid in, plus interest. Adjustment: Benefits adjusted for changes in consumer price index. All pensions non-taxable.</p>		
<p><b>Permanent Disability Benefits</b></p> <p><b>Disability pension:</b> Total disability, same as the old-age pension. For partial disability, benefits reduced by up to 40% of BPA, depending on degree of incapacity to work. (Four degrees of disability, with the 4th degree as the least severe disability and 1st degree being the most severe. 1st degree, total loss of capability to work and requiring constant attendance; 2nd degree, severe loss of capability to work; 3<sup>rd</sup> and 4<sup>th</sup> degrees, some loss of capability to work.)</p>	<p><b>Permanent Disability Benefits</b></p> <p><b>Disability benefit:</b> Lump sum equal to total employee and employer contributions paid in, plus accrued interest.</p>	<p><b>Permanent Disability Benefits</b></p> <p><b>Disability benefit:</b> 50% of prior wage payable for whole life. Maximum: 250 baht a day.</p>
<p><b>Survivor Benefits</b></p> <p><b>Survivor pension:</b> If insured had 20 or more contribution years, 60% of full pension of the insured; if 10 to 19 contribution years, 50%; if less than 10 contribution years, 40%.</p> <p><b>Lump-sum refund:</b> Employer and employee contributions paid in, plus interest</p> <p>Lump-sum death benefit: Equal to the amount of deceased insured person's last-monthly covered earnings, or average monthly covered earnings for the entire insured period, whichever is higher. Funeral grant: See medical benefits for dependents under Sickness and Maternity, below.</p>	<p><b>Survivor Benefits</b></p> <p><b>Survivor benefit:</b> Lump sum equal to total employee and employer contributions paid in, plus accrued interest. Death benefit: Lump sum of Rp 1,200,000 plus amount accumulated in provident fund. Payable if death before age 55.</p>	<p><b>Survivor Benefits for dependents</b></p> <p><b>Survivor benefit:</b> lump sum at the amount of ten times of last month old age pension in case the pensioner died within sixty months since the date of entitlement to old age pension.</p> <p><b>Funeral grant:</b> 30,000 baht.</p>

## Annex 2: Existing Social Programs in Korea, Indonesia, and Thailand (cont.)

Korea	Indonesia	Thailand
<p>A. Old age, Disability Death</p> <p><b>Administrative Organization</b> National Pension Corporation, under supervision of Ministry of Health and Welfare.</p>	<p><b>Administrative Organization</b> Minister of Manpower, general supervision. Public Corporation for Employees Social Security (PT ASTEK), administration and operation of program.</p>	<p><b>Administrative Organization</b> Ministry of Labor and Social Welfare, general supervision. Social Security Office, administration of program.</p>
<p>B. Sickness and Maternity</p> <p>First law: 1963 (Medical Insurance Law) and 1997 (National Medical Insurance Law). Current law: 1998 (Medical Insurance Law, for resident employees in general) and 1998 (National Medical Insurance Law, for self-employed, and government and private school employees). Type of program: Social insurance system (Medical care only).</p> <p><b>Coverage</b> All permanent residents (including non-citizens residing in Korea for 1 or more years), except for those covered by Medical Aid program.</p> <p><b>Source of Funds</b> <b>Insured person:</b> 1% to 4% of monthly covered earnings (average: 1.64%) by employees in general; government and private school employees: 2.61%. Self-employed: Contribution rates based on income, assets, age, and gender of insured.</p>	<p>First law: 1957. Current law: 1992. Type of Program: Social insurance system (medical benefits).</p> <p><b>Coverage</b> Coverage being extended gradually to different industries and districts. Employers with more comprehensive benefits exempted from coverage.</p> <p><b>Source of Funds</b> <b>Insured person:</b> None <b>Employer:</b> 6% of payroll for married employees, 3% of payroll for single employees. <b>Government:</b> None.</p>	<p>First and current law: 1990. Revised 1994. Type of program: Social insurance system.</p> <p><b>Coverage</b> Same as for Old Age, Disability, Death.</p> <p><b>Source of Funds</b> <b>Insured person:</b> 1% of employee's wages. <b>Employer:</b> 1% of employee's wages. <b>Government:</b> 1% of employee's wages. Above contributions also finance disability and death wage range for contribution purposes between 1,650-15,000 baht per month.</p>

**Annex 2: Existing Social Programs in Korea, Indonesia, and Thailand (cont.)**

Korea	Indonesia	Thailand
<p><b>A. Old age, Disability Death</b></p> <p><b>Employer:</b> 1% to 4% of monthly covered earnings (average: 1.64% ; 1.26%, private schools).  <b>Government:</b> <b>None for employees in general; 2.1% of covered monthly earnings for government employees, 0.84% for private school employees, and 30% of contributions for the self-employed. Minimum earnings for contribution and benefits purposes: 75,000 won a month for employees; 5,000,000 won in taxable annual income for self-employed. No maximum.</b></p> <p><b>Qualifying Conditions</b>  <b>Medical benefits:</b> No minimum qualifying period or contributions to program.</p>	<p><b>Qualifying Conditions</b>  <b>Medical benefits:</b> Current coverage.</p>	<p><b>Qualifying Conditions</b>  <b>Cash sickness and medical benefits:</b> 3 months of contribution in 15 months before date of treatment.  <b>Cash maternity and medical benefits:</b> 7 months of contribution in 15 months before treatment. Limited to 2 pregnancies. Sickness and Maternity Benefits  Sickness benefit: 50% of wages. Maximum: 250 baht a day. Payable for up to 90 days for each illness, but for not more than 180 days in any calendar year. (For each incidence of chronic disease, payable for not more than a total of 365 days.)</p>

## Annex 2: Existing Social Programs in Korea, Indonesia, and Thailand (cont.)

Korea	Indonesia	Thailand
<p>A. Old age, Disability Death</p> <p><b>Workers' Medical Benefits</b>  <b>Medical benefits:</b> Include medical treatment, surgery, hospitalization, and medicines. Services provided by designated physicians, clinics, hospitals, and pharmacists.            Maternity services are provided to insured or dependent with no limit on the number of children. No cash benefits for maternity.            Insured pays 20% of hospitalization costs and 30% to 55% of outpatient care (55% if provided by the General Hospital, 40% if by regular hospital, and 30% if by a clinic).  <b>Maximum: 500,000 won for each 30-day period for employees in general and their dependents; 1,000,000 won for each 30-day period for government and private-school employees and their dependents, and for the self-employed.</b>            Duration of benefits: 330 days a year per insured person (No limit for the aged, the disabled, pulmonary tubercular patients, or recipients of national merit awards and medals.)</p>	<p><b>Workers' Medical Benefits</b>  <b>Medical benefits:</b> Medical examination and treatment, hospitalization, medicines, and maternity care, dental care, eye care, family planning services and immunization. Duration: 2 months of hospitalization (may be extended in special cases).</p>	<p><b>Maternity benefit:</b> 50% of wages payable for up to 90 days for each confinement. Payable only for female insured person. Lump sum of 4,000 baht per one confinement.</p> <p><b>Workers' Medical Benefits</b>  <b>Medical benefits:</b> Medical examination and treatment, hospitalization, medicines, ambulance fees, rehabilitation, and other necessary expenses under the capitation system.</p>



**Annex 2: Existing Social Programs in Korea, Indonesia, and Thailand (cont.)**

Korea	Indonesia	Thailand
A. Old age, Disability Death		
<p><b>Dependents' Medical Benefits</b>  <b>Medical benefits for dependents:</b> Same as for insured.  Dependents include spouse, direct lineal ascendants of employee and spouse, direct lineal descendants and their spouses, and brothers and sisters supported chiefly by the insured person.  Funeral grant for both insured workers and dependents: Lump sum payment of 300,000 won for insured person, and 200,000 won for any dependent.</p>	<p><b>Dependents' Medical Benefits</b>  <b>Medical benefits for dependents:</b> Same as for insured worker.</p>	<p><b>Dependents' Medical Benefits</b>  <b>Medical benefits for dependents:</b>  Maternity medical benefits for spouse.  (Lump sum only.)</p>
<p><b>Administrative Organization</b>  Ministry of Health and Welfare, general supervision.  National Federation of Medical Insurance, general guidance and support to individual medical insurance societies, review and payment of claims submitted by medical care institutions, and designation and cancellation of medical care service providers.  National Health Insurance Corporation: Administration of National Medical Insurance programs for self-employed, government and private school employees; including management of records of insured workers, collection of contributions from the employee, the self-employed, the employer, and the government (wherever applicable), and verification of medical care provided. Medical insurance societies (140 in total): Examination of qualifications of insured workers or dependents: collection of contributions, verification of medical care provided.</p>	<p><b>Administrative Organization</b>  Minister of Manpower, general supervision. Public Corporation for Employees' Social Insurance (PT ASTEK), administration and operation of program.</p>	<p><b>Administrative Organization</b>  Ministry of Labor and Social Welfare, general supervision. Social Security Office, administration of program.</p>

## Annex 2: Existing Social Programs in Korea, Indonesia, and Thailand (cont.)

Korea	Indonesia	Thailand
A. Old age, Disability Death		
<p>C. Work Injury</p> <p>First law: 1953 (employer liability law still applies to workers in industry and commerce not under 1963 law; benefit provisions of two laws similar). Current law: 1963 as amended through 1997. Type of program: Compulsory insurance with public carrier.</p> <p><b>Coverage</b> Employees of industrial firms with 5 or more workers. Separate system for public employees.</p> <p><b>Source of Funds</b> <b>Insured person:</b> None <b>Employer:</b> 0.3% to 31.9% of payroll, according to risk in industry. (Average contribution: 1.65%) <b>Government:</b> Cost of administration.</p>	<p>First law: 1939. Current law: 1992. Type of program: Social insurance system.</p> <p><b>Coverage</b> Establishments with 10 or more employees or a payroll of Rp1 million or more a month. Coverage being extended gradually to smaller establishments and seasonal workers. Voluntary coverage available. Special system for public employees.</p> <p><b>Source of Funds</b> <b>Individual employer liability program:</b> <b>Insured person:</b> None. <b>Employer:</b> Whole cost, 0.24% to 1.74% of payroll. <b>Government:</b> None Maximum earnings for benefit purposes: Rp 1,0000 a day. Social insurance program: Insured person: None. <b>Employer:</b> 0.24% to 1.74% of payroll, according to risk in industry. <b>Government:</b> None.</p>	<p>First law: 1972. Current law: 1994. Type of program: Compulsory insurance with public carrier.</p> <p><b>Coverage</b> Employees of industrial and commercial firms with 10 or more workers. Exclusions: Employees in agriculture, forestry and fishing, state enterprise, private schools and government.</p> <p><b>Source of Funds</b> <b>Insured person:</b> None <b>Employer:</b> 0.2% to 1.0% of payroll, according to risk classified by industrial classification. <b>Government:</b> None.</p>

**Annex 2: Existing Social Programs in Korea, Indonesia, and Thailand (cont.)**

Korea	Indonesia	Thailand
<b>A. Old age, Disability Death</b>  <b>Qualifying Conditions</b> <b>Work-injury benefits:</b> No minimum qualifying period.	<b>Qualifying Conditions</b> <b>Work-injury benefits:</b> Partial or total disablement before age 55. No minimum qualifying period.	<b>Qualifying Conditions</b> <b>Work-injury benefits:</b> No minimum qualifying period.
<b>Temporary Disability Benefits</b> <b>Temporary disability benefit:</b> 70% of daily average earnings. Payable after 3-day waiting period for duration of medical care. Beginning with the 25th month, the more severely disabled have the above benefit replaced by 257-329 days of daily average earnings, depending on the degree of disability. Minimum benefit: 12,200 won per day. Adjustment: Daily average earnings adjustment according to wage fluctuations.	<b>Temporary Disability Benefits</b> <b>Temporary disability benefit:</b> 100% of earnings for first 4 months, 75% of earnings for second 4 months, and 50% of earnings thereafter.	<b>Temporary Disability Benefits</b> <b>Temporary disability benefit:</b> 60% of wages. Minimum, 2,000 baht a month; maximum, 9,000 baht. Payable after 3-day waiting period (paid retroactively if incapacity lasts more than 3 days).
<b>Permanent Disability Benefits</b> <b>Permanent disability benefit:</b> If total disability, annual pension equal to 138-329 days of daily average earnings, or lump sum equal to 55-1,474 days' earnings, according to degree of disability. Adjustment: Daily average earnings adjustment according to wage fluctuations.	<b>Permanent Disability Benefits</b> <b>Permanent disability benefit:</b> Varies according to degree of disability. Minimum monthly benefit equal to the regional minimum wage. Maximum is 70% of previous monthly earnings times 60.	<b>Permanent Disability Benefits</b> <b>Permanent total disability benefits:</b> 60% of average monthly wage for 15 years. <b>Permanent partial disability:</b> 60% of average monthly wage. Payable for up to 10 years according to degree of incapacity, or as a lump sum.
<b>Workers' Medical Benefits</b> <b>Medical benefits:</b> Free medical treatment, surgery, hospitalization, medicines, nursing, dental care, appliances, transportation, and rehabilitation.	<b>Workers' Medical Benefits</b> <b>Medical benefits:</b> Individual employer liability program; Medical treatment, hospital care, medicines,	<b>Workers' Medical Benefits</b> <b>Medical benefit:</b> Necessary medical, surgical, and hospital services. Maximum limit on cost, 35,000 baht

## Annex 2: Existing Social Programs in Korea, Indonesia, and Thailand (cont.)

Korea	Indonesia	Thailand
<p>A. Old age, Disability Death</p> <p><b>Survivor Benefits</b></p> <p><b>Survivor benefits:</b> Lump sum equal to 1,300 days' daily average earnings payable to surviving family, or pension of 52% of annual earnings for 1 person, 57% for two, 62% for three, and 67% for four or more persons.</p> <p><b>Adjustment:</b> Daily average earnings adjustment according to wage fluctuations.</p> <p><b>Funeral grant:</b> 120 days' daily average earnings.</p> <p><b>Administrative Organization</b></p> <p>Ministry of Labor, general supervision. Korea Labor Welfare Corporation pays benefits and collects payroll taxes.</p>	<p>and necessary transportation.</p> <p><b>Social insurance program:</b> Medical treatment, hospital care, medicines, and Rp 100,000 to Rp 250,000 for transportation. Cost of medical care covered to Rp 3 million.</p> <p><b>Survivor Benefits</b></p> <p><b>Survivor pension:</b> Individual employer liability program: 30% of earnings of insured. Payable to widow or to disabled insured.</p> <p>Widower:</p> <p>Orphans: 15% of earnings of insured for each orphan under age 16, or 20% if full orphan. Other eligible survivors: Parent, grandparent, orphaned grandchild, father-in-law, mother-in-law. Maximum survivor pensions: 60% of 48 months of earnings (pensions may be converted to lump sums). Death benefit: Lump-sum payment up to 60% of 60 months of earnings at the death of the insured. Funeral grant: Rp 200,000.</p> <p><b>Administrative Organization</b></p> <p><b>Individual employer liability program:</b> Minister of Manpower, general supervision. Individual employers must pay compensation directly to own employees and arrange for medical care.</p>	<p><b>Survivor Benefits</b></p> <p><b>Survivor pension:</b> 60% of average monthly wages, according to number and type of survivors. Payable for up to 8 years or as a lump sum. Eligible survivors: Employee's spouse, parents, and children under age 18 (no age limit if student or disabled). Each survivor receives an equal amount.</p> <p><b>Funeral grant:</b> 100 times the minimum daily wage (162 baht per day since September 19, 1997).</p> <p><b>Administrative Organization</b></p> <p>Ministry of Labor and Social Welfare, general supervision. Social Security Office, administration of program through Workmen's Compensation Fund Office.</p>

## Annex 2: Existing Social Programs in Korea, Indonesia, and Thailand (cont.)

Korea	Indonesia	Thailand
A. Old age, Disability Death		
	<b>Social insurance program:</b> Public Corporation for Employees Social Insurance (PT ASTEK), administration and operation of program.	
D. Unemployment Insurance		
Coverage and eligibility: In January 1998, it will cover firms with at least 10 workers. To qualify, employees must be employed for at least 12 months during 18 months before involuntary unemployment occurred. Benefit, financed by 0.6 percent payroll tax shared between workers and employers, is equal to ½ of the average worker's daily salary during the preceding 12 months.	No programs	(Included under the 1990 Social Security Act, implementation pending Royal Decree.)
E. Social Assistance		
Korea's social assistance system consists of two components: (i) public assistance (livelihood protection, medical aid, veteran relief, disaster relief); and (ii) social welfare services (for the disabled, elderly, children, women and the mentally handicapped). Public assistance provides services and financial assistance to needy people with low incomes. Social welfare services focussed on maintaining family welfare of the disadvantaged groups.	No programs	No programs

**Annex 2: Existing Social Programs in Korea, Indonesia, and Thailand (cont.)**

Korea	Indonesia	Thailand
A. Old age, Disability Death		
F. Family Allowance		
No programs	No programs	<p>(Included under the 1990 Social Security Act, implementation starting in 1998.) First and current law: 1990. Revised 1999. Type of program: Social insurance system.</p> <p><b>Coverage</b> Same as for Old Age, Disability, Death.</p> <p><b>Source of Funds</b> <b>Insured person:</b> See pension contribution above. <b>Employer:</b> Same. <b>Employee:</b> Same.</p> <p><b>Qualifying Conditions</b> <b>Child allowance benefits:</b> 12 months of contribution in 36 months before the month of entitlement. Child must be under age 6 (maximum 2 children).</p> <p><b>Family Benefits</b> <b>Child allowance:</b> Monthly allowance amounting to 150 baht per child. In case the insured person is disabled or dead while the child is under age 6, the child shall be entitled until reaching age 6.</p>

Source: Adapted from US. Department of Health, Education and Welfare, *Social Security Programs Throughout the World 1999*.

### **3. PROBLEMS AND PROSPECTS OF ECOTECH IN APEC: A WAY OUT OR A WAY FORWARD?\***

**By Medhi Krongkaew, with assistance of Jaroenjit Pothong\*\***

#### **1. Introduction**

Despite political problems at home, most APEC leaders were able to come to Brunei for its 8<sup>th</sup> annual APEC Economic Leaders' Meeting (AELM) or what is more popularly known as the annual APEC Summit.<sup>1</sup> Compared with previous summits, this Brunei Summit must also be called a success because it ran smoothly without street protests seen in other summits like in Vancouver or Auckland, and attending APEC leaders were able to say what they wanted to say. But despite the conscious attempt by the host, Brunei, to play up the main theme, or the main thrust, of this year's 'deliverables', which is human capacity building in APEC--a clear economic and technical (ECOTECH) issue, it got lost in more traditional topics or issues that APEC has been known to be focusing upon, the trade and investment liberalisation and

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\* Paper presented at the Annual Japan's APEC Study Center Consortium, organised by the Institute of Developing Economies, Chiba, 17 December 2000.

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<sup>1</sup> There were at least three presidents and one prime minister who were having political problems at home: Presidents of the Philippines, Peru and Indonesia, and Prime Minister of Japan. The President of Taiwan was also having political problems at home, but he could not attend this APEC Summit anyway due to the objection of China. President of the United States attended this Summit as a lame-duck rather than incoming president. But this last participation of Bill Clinton in the APEC Summit was very appropriate because it was he who created the first AELM in Seattle in 1993.

facilitation (TILF), and its allied issues. Indeed, from what we can see from the news reports, this year's APEC Summit was mainly about 3 things: the general support of globalisation and its ensuing necessity to launch a new trade negotiation round in the WTO, the importance of the New Economy, and the announcement of several sub-regional or bilateral free-trade arrangements (FTAs) among several APEC members. Throughout this year (2000), and even a few years earlier, senior officials of APEC during their several meetings (at least SOM 1 to SOM 3), had again and again emphasised the importance of ECOTECH as, not just the third pillar of APEC, but the 'heart' that pumps blood to sustain the life of APEC itself.<sup>2</sup> Yet when it is time to announce the so-called ECOTECH agenda (like that deliverable by Brunei on Human Capacity Building), the force of the idea or concept could not match up with the force of tariff reduction, market access and competition, and other TILF concepts. Obviously the ECOTECH agenda is much more complex than a simpler trade and investment liberalisation and facilitation. So, instead of the APEC process finds a 'way forward' for ECOTECH, it actually should find a 'way out' of this difficulty first.

At present, there are several organisations, or fora, in the APEC process that deal with ECOTECH matters. Chief among these fora is the SOM Subcommittee on Economic and Technical Cooperation or ESC for short, which was established in 1998. Its main function is to assist senior officials in coordinating and managing the ECOTECH agenda, and in identifying value-added initiatives for cooperative action (see Box 1 for a more detailed description of the function of duties of the ESC). As it will become clear later, what ESC has done so far, or will be doing in the future, is not totally conducive to making the understanding of ECOTECH agenda any easier. Also, since its beginning in 1989, APEC already has had several working groups with specific areas of interest

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<sup>2</sup> This concept of ECOTECH as the heart of APEC is made popular by Andrew Elek and Hadi Soesastro in their joint paper, 'ECOTECH at the Heart of APEC: Capacity Building in the Asia Pacific Region', Foundation for Development Cooperation, 1999.



such as industrial science and technology, energy, or human resources development, where economic and technical cooperation elements could be developed. The ECOTECH elements from these working groups add to the complexity of ECOTECH issues. What is more, it is now established that there are also ECOTECH elements in the traditional TILF matters! Now it appears that ECOTECH has permeated every corner of APEC. How to make more sense out of this development of ECOTECH in the APEC process?

This paper is about explaining problems associated with the role of ECOTECH in APEC, and about discussing prospects of this complex issue in APEC at present and in the future. It will begin by recounting the historical development of ECOTECH concept, leading to the current structure and promotion of ECOTECH in the current APEC process. This is done in the next section, Section 2. Then the paper will, in Section 3, discuss what kinds of ECOTECH activities are being undertaken by the ESC, to what outcomes and ramifications. Section 4 looks at a broader issue of ECOTECH that goes beyond the role or function of the ESC to see how other economies and other APEC fora could take part in ECOTECH Agenda. Finally, Section 5 suggests ways to get out of ECOTECH difficulties and move forward to achieving greater and more profitable and appropriate role for ECOTECH in the future.

## **2. Current Structure and Promotion of ECOTECH in APEC**

Admittedly it is possible to see APEC when it was first conceived in the late 1980s as a potential trade bloc in the Asia Pacific region. The circumstance under which this APEC idea was conceived was that, in 1989, the Uruguay Round of GATT negotiations was under an eminent danger of collapse due to inability of its members to agree on several important basic issues including the treatments of agriculture and trade in services. If this historic trade negotiations should fail, it could bring about a trade war between North America and Europe, leaving non-united East Asian countries exposed and vulnerable. Hence the

formation of APEC as a trade bloc that will challenge both the North American Free Trade Area and the European Single Market or European Union. Fortunately the Uruguay Round was successful and a potential trade war was averted. Instead of being a trade bloc, APEC, now with the participation of the United States and Canada, had opted to become an ‘open economic association’ (Yamazawa, 1992). It is open because it does not seek to discriminate against non-members. It is economic because it deals basically with economic growth, trade and investment. And it is an association because participants do not cede powers of regulation or enforcement to any supra-national regional institution. Unlike GATT and its metamorphosis, the WTO, APEC is a voluntary organisation based on consensus aiming at free and open trade and investment in the region, not a rules-based organisation with sanction power like the WTO. Trade and investment liberalisation and facilitation were a major concern of APEC in the beginning.

Once the major landmark agreements on trade liberalisation were reached in Bogor, Indonesia in 1994 that developed economies in APEC would be ready for free trade and investment in the Asia Pacific region by 2010, and developing members by 2020, more emphasis could be put in other aspects of a regional grouping. As argued by Hadi Soesastro (1999), as chair of APEC in 1994, Indonesia made it clear that trade and investment liberalisation and facilitation must be accompanied by ‘development cooperation’ aimed at developing capacity in the developing economies to be able to take part in the liberalisation process. The term ‘development cooperation’ was later changed to ‘economic and technical cooperation’ or ECOTECH to make sure that APEC would not turn into another forum for development aid.

In 1995, Japan as host of the APEC Summit, continued its further work on ECOTECH for APEC. In its long-term plan for the development of APEC known as the Osaka Action Agenda (OAA), Japan clearly defined, in Part 2 of this OAA, what member economies should do in their ECOTECH matters. The three basic principles that APEC economies would follow to achieve the objectives of this part of the OAA require that:

- (a) APEC economies "...pursue economic and technical cooperation in order to attain sustainable growth and equitable development..., while reducing economic disparities among APEC economies and improving economic and social well-being". It was expected that such efforts would also facilitate the growth of trade and investment in the region.
- (b) APEC economies "...conduct economic and technical cooperation on the basis of the principles of mutual respect and equality, mutual benefit and assistance, constructive and genuine partnership and consensus building". And,
- (c) In pursuing the above objectives, APEC economies will develop an environment favourable to the effective operation of market mechanisms and integrate into the cooperation process the business/private sector as well as involve wherever possible other pertinent institutions".

Thirteen specific areas were listed in this Part 2 of the OAA where Common Policy Concepts, Joint Activities, and Policy Dialogue were the three essential elements to be taken into account.<sup>3</sup> These 13 specific areas for economic and technical cooperation include (1) human resource development; (2) Industrial science and technology; (3) small and medium enterprises; (4) economic infrastructure; (5) energy, (6) transportation; (7) telecommunications and information; (8) tourism; (9) trade and investment data; (10) trade promotion; (11) marine resource conservation, (12) fisheries; and (13) agricultural technology.

In 1996 Philippines was the host for that year's APEC Summit. ECOTECH got further refinement from APEC leaders. The Manila Declaration on an Asia Pacific Cooperation Framework for

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<sup>3</sup> A Common Policy Concept requires a setting up of goals, basic principles and priorities in each specific area of APEC economic and technical cooperation. A Joint Activity would call for compilation and sharing of data and information, surveys, training, seminars, research and technical demonstrations. Finally, a Policy Dialogue on economic issues pertaining to these 13 specific areas of interest will be conducted.

Strengthening Economic Cooperation and Development identified 6 priority areas of ECOTECH, namely:

- (1) Development of human capital;
- (2) Development of stable, safe and efficient capital markets;
- (3) Strengthening of economic infrastructure;
- (4) Harnessing of technologies for the future;
- (5) Safeguarding of the quality of life through environmentally sound growth; and
- (6) Development and strengthening of the dynamism of small and medium enterprises.

Together, this Manila Declaration and the 1995 OAA have become the guiding principles of how ECOTECH agenda would be set in APEC. Note that while priority areas were set and plan of action suggested, these ECOTECH activities were left for all economies and existing APEC working groups and other fora to handle by themselves. Whereas the coordination of the work on trade and investment liberalisation and facilitation was being undertaken by the Committee on Trade and Investment (CTI), there was no similar organisation or administrative institution to take care of ECOTECH matters. This gave rise to a debate in the following year, in Canada, which played host to the 1997 APEC Summit. Some major developed economies members objected to the creation of this special administrative unit to coordinate the ECOTECH work, saying that such creation might dilute the importance of TILF which was the primary objectives of APEC and might turn APEC into a mutual aid-giving and aid-receiving organisation, while some major developing economies members insisted that a special administrative unit to coordinate ECOTECH activities was needed as the main issue was economic and technical cooperation, not aid-related developmental activities. In the end, a compromise was reached whereby this administrative unit to coordinate ECOTECH activities was set up, not as a committee like the CTI or the Economic Committee (EC), but as

a sub-committee attached to SOM and to be officially known as SOM Subcommittee on Economic and Technical Cooperation or ESC. As this strange creature works with, and reports to SOM directly, it has the same status as the CTI or the EC, except that it normally does not report to APEC Minister Meeting (AMM) like the other two committees.

So, the ESC came to life in 1998 when Malaysia became host for the 1998 Summit. In the first official meeting of the ESC in Singapore in April 1998, one could feel an exciting beginning of this sub-committee. It was of course already agreed that the role of the ESC was to assist the SOM in coordinating and managing the ECOTECH agenda of APEC. This was to be taken in the form of review and consultation to ensure that ECOTECH activities met the needs of APEC constituents. If necessary, bold and innovative approaches producing results were to be encouraged. SOM had already tasked the ESC to do four things:

- The spread of work on the ECOTECH priority of developing human capital and harnessing technology for the future;
- The continuation of last years' work on infrastructure;
- The formulation of the Agenda for Science and Technology Industry Cooperation into the 21<sup>st</sup> Century; and
- To contribute to the ECOTECH elements in the Early Voluntary Sectoral Liberalisation (EVSL) process.

So, three years after the ESC began to function, the role of this sub-committee has become clearer. Still, the promotion of this ECOTECH body to play an important part in the APEC process is fraught with uncertainties and problems. These uncertainties and problems will be discussed in the next section. We leave this section by noting that, at present, the ESC is headed by a chair nominated by a member economy to be approved by SOM and AMM. The Chair of the ESC has a term of two years, and is responsible directly to SOM. Members of the ESC can be senior officials of APEC member economies themselves, or they can designate their representatives to participate in the ECS meetings which

take place at the same time as the SOM meetings (either before or after the SOM meetings). Apart from serving at the instruction (and pleasure) of the SOM, the ESC has no jurisdiction or power over any other APEC fora. The APEC Secretariat of course assigns two senior officers to work with the ESC Chair, one to coordinate the broad agenda of the ESC and its implementation, and the other to work as a special assistant to the ESC Chair. The ESC Chair does not even have the right to attend the meeting of any working groups, unless invited or permitted to do so by the lead shepherds. Moreover, as the ESC Chair is supported or sponsored by the government of an APEC member, he or she is also under some controls of that government either through budgetary provision and/or official permission to participate or engage in certain APEC activities. So far, the sharing role between the ESC Chair and Vice Chair is still not clearly defined although it is assumed that the Vice Chair may be asked to perform the duties of the Chair if and when necessary.

### **3. Narrow Function of ECOTECH: ‘Track I’ of ECOTECH Development.**

One easy way to define the status of ECOTECH in the APEC process is to look at what the ESC has done throughout the year. This is a narrow view of how ECOTECH has developed. In other words, ECOTECH is what the ESC does. This may sound simple and facile, but in actuality it is not that simple at all. Imagine that there are several bodies that can initiate ECOTECH works for the ESC to do. For example, a senior official representing an economy (or group of economies) may initiate some activities, say, a certain skill training program, to SOM. This proposal may be discussed in SOM, and if no one objects to it, it will be adopted and implemented. Other member economies may join in voluntarily, and the ESC may be tasked to coordinate this program and probably evaluate it too.

The APEC ministers and leaders may also initiate something and pass on these initiatives to certain APEC fora. If these initiatives

are of ECOTECH nature, then the ESC will naturally get involved in the coordination, management and evaluation of these activities. Other APEC working groups may also initiate projects of their own, and these projects may be sponsored by the APEC process through the use of central fund from annual contributions from members. Currently the amount of central fund to be used for the work of APEC Secretariat and to support other APEC fora activities totals about US\$3 million a year. Moreover, there are also several sectoral ministerial meetings, such as finance ministers meeting, trade ministers meeting, energy ministers meeting. These meetings can generate projects or activities that may require central efforts to coordinate their works and evaluate the outcomes later. The ESC, with the assistance of the APEC Secretariat and cooperation from some member economies, may have to devise a system to keep track of all these activities. New activities are proposed and implemented while old activities are still running. It is of little surprise that the ECOTECH-related activities by member economies and APEC fora are facing the danger of running out of control.

All the above activities that are initiated and implemented within the realm of APEC inter-governmental agencies and fora may be called 'Track I' of ECOTECH development. This is what APEC officials in all APEC economies and those who are formally related to it are doing with respect to ECOTECH agenda. The range of activities falling into this Track I category may be classified into 3 groups, namely coordination, dissemination and participation.

#### **(a) Coordination**

Therefore, the first assignment that SOM had asked the ESC to do (from the experience of its work in the year 2000) is to help coordinate all the ECOTECH activities by all APEC fora. By coordination is also meant evaluation or assessment. The ESC, with the help of the APEC Secretariat, was able to make a survey of all completed ECOTECH projects in the year 2000, and the outcome of this survey is informative. All projects are classified both by ECOTECH themes and by type of

activity, and the results are as follows:<sup>4</sup>

By ECOTECH Themes	No. of projects
1. Developing human capital	70
2. Developing stable, safe and efficient capital markets	7
3. Strengthening economic infrastructure	21
4. Harnessing technologies for the future	49
5. Promoting environmentally sound growth	51
6. Strengthening the dynamism of SMEs	22
Total	220
By Type of Activity	
1. Survey/Study/Report	75
2. Workshop/Seminar	59
3. Training	38
4. Standard/Best Practice	4
5. Database/Website/Network	37
6. APEC Centre/Exposition	7
Total	220

It may be seen that, of all completed 220 projects, the majority of these projects concentrated on developing human capital, which is good. Other than this the spread of the themes is also acceptable, except on the development of stable, safe and efficient capital markets, which is still too few. The categorisation of ECOTECH projects by type of activity had shown that more than half of these projects are surveys, studies, reports, and the organisation of workshops and seminars, with less than 18 per cent on training and less than 3 per cent on standards and best practices.

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<sup>4</sup> APEC Secretariat, *2000 Report on Economic and Technical Cooperation, Ministerial Meeting 12*, November 2000. Mr. Mohan Mathews, a Director at the APEC Secretariat, was instrumental in carrying out this survey and analysis.



It is obvious that future ECOTECH projects should move away from studies and seminars.

Note that the above is just a survey of completed ECOTECH projects in 2000. It said nothing about the evaluation of these projects. Needless to say, it is beyond the capability of the ESC to perform this evaluation function. This year, however, the ESC did pick one ECOTECH theme namely human resources development (HRD) and tried to assess the success of these HRD projects. The assessment was done by individual economies (self-assessment), and the results were so disparate that no concrete conclusions could be made out of this exercise. But at least this exercise has shown that there is a need to look into the evaluation of all ECOTECH themes. The ESC is of opinion, therefore, that if the ESC were to conduct a deeper, more thorough effectiveness evaluation, it may require the assistance of external experts. The ESC, therefore, suggested that external organisations such as the APEC International Assessment Network (APIAN), a group of scholars drawn from APEC Study Center Consortium, be asked to help in these evaluations (see more on this point in the next section).<sup>5</sup>

Two more ECOTECH-related coordination and evaluation activities were undertaken by the ESC this year. They are (a) the implementation of Part II of the Osaka Action Agenda, and (b) the implementation of the guidance on strengthening management of APEC ECOTECH activities. On the implementation of Part II of the OAA, the ESC in cooperation with Japan undertook the review of this important document to see how much had been accomplished since 1995 and to see whether it needed revision. The result of the review has shown that Part II of the OAA still remains an impressive fundamental document, which clearly points to APEC's sectoral goals and provides a clear road

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<sup>5</sup> It should be mentioned also that the change of attitude may be needed in the working behaviour of some APEC fora to be more cooperative and less apprehensive. A good case in point is the refusal of the Budget and Management Committee (BMC), the Central Fund handler of APEC, to allow the ESC Chair to get access to the project proposals submitted to the BMC for funding in 2000.

map for activities that shape policy dialogues and projects by APEC fora. The ESC, therefore, recommends that the Common Policy Concepts articulated in the OAA be continued to be used as a reminder of the goals that individual fora are expected to achieve, and that it reviews the Joint Activities/Dialogue sections of the OAA in 2001 with a view to removing tasks that have been accomplished and incorporating new initiatives that have been launched since 1995.<sup>6</sup>

On the implementation of the guidance on strengthening management of APEC ECOTECH activities, the ESC had found that APEC fora had observed the ECOTECH guidelines in avoiding duplication of project substances, and in involving the private sector in the projects. The APEC Secretariat has been very helpful on these matters as it gives useful comments on project proposals seeking APEC funding. However, there were still problems related to the implementation of the ECOTECH Weighting Matrix. This is a set of criteria that check whether the proposed projects satisfy given conditions and how many points or how much weight could be assigned to it. This matrix is not used as a tool to screen out projects but simply to check that they have addressed some pertinent ECOTECH issues or conditions.<sup>7</sup> Because of the problems experienced in the use of this Weighting Matrix during 2000, the ESC with the cooperation of the APEC Secretariat proposed a revision of this matrix, and the revised matrix was adopted by SOM for use in 2001.

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<sup>6</sup> For more details on the review of the implementation of Part II of the Osaka Action Agenda, see APEC Secretariat, *2000 Report on Economic and Technical Cooperation, Ministerial Meeting 12*, November 2000, p. 29 and Annex 10.

<sup>7</sup> The ESC, in cooperation with the APEC Secretariat, had gone through the 44 approved projects for 2000 to see whether they had properly filled out the their ECOTECH Weighting Matrix forms. The results were not very pleasing, as the majority of these approved projects (29 out of 44) were submitted without adequate justification or supporting information. One was submitted without the ECOTECH Matrix, and one used the wrong form which could not be considered. It shows that the Weighting Matrix, in its current form, had failed its function as an identification or project screening tool. And this is one of the major reasons why the ESC had asked the Senior Officials to endorse a new ECOTECH weighting matrix form.

**(b) Dissemination**

Although APEC officials are primarily concerned with carrying out their designated duties of promoting TILF and ECOTECH, they can hardly afford to remain separate from other segments of the society or the public at large. First of all the government needs support from the people. If the government fails to bring out the benefits of APEC to the public at large, then the government may not last. It is, therefore, important that the government keeps close attention to its communication with the tax-paying public. And one way to do this is to constantly inform the public on what APEC, or in our present case, ECOTECH is all about. The communication can be one-way or two-way. A one-way communication informs the public through various forms of publications: books, booklets, monographs, pamphlets, newspaper articles, and the like. A two-way communication takes the form of discussion groups, seminars, symposia, or even visits. Sometime the word 'outreach' or 'public outreach' is used to describe this dissemination function of ECOTECH.

Throughout the years, some APEC member economies and other APEC fora may have undertaken many of these dissemination or public outreach activities, but they are too infrequent. Some of the more notable public outreach activities of APEC members include several publications of Australia on APEC, not just for the general Australian public, but the readers in other economies too. The recent example of this notable outreach effort is the publication by Thailand in November 2000 a glossy, picture-filled booklet called 'Making APEC Matter to People through ECOTECH'. The APEC Secretariat itself is a premier organisation doing public outreach activities for APEC, but most of its publications are APEC official records, summaries of meetings, reports of studies, and so on. Perhaps its public relations officer could be given a larger responsibility to step up public outreach activities on ECOTECH in the future. It should be mentioned also that the APEC Secretariat is maintaining a very extensive and comprehensive website containing practically all official information of APEC. At the AMM and AELM this year in Brunei, the so-called ECOTECH Clearing House Project

which was finished a few months earlier was launched by the ministers and leaders. This is one of the major deliverables this year in Brunei. The ECOTECH Clearing House is a website that indexes all relevant information on APEC ECOTECH activities. It will also provide facilities for the exchange of information between potential partners in ECOTECH activities (notice-board function). The completion of this project could indeed be called “one of the most exciting accomplishments in ECOTECH this year”.

### **(c) Participation**

Traditionally, the function or duties of the ESC should end here because the ESC had done all it can on the coordination and evaluation of ECOTECH projects, and had urged all concerned to disseminate their good results to the public. But there is another function that either the ESC itself or governments of member economies might do which is in the form of creating new activities that possess ECOTECH elements. This kind of function could be called participation function, as it reflects a conscious attempt by APEC members or fora to take part in ECOTECH efforts. Sometime this type of activities looks like an extension of the coordination of the ECOTECH activities, but there is more to it than that. Take, for example, the activity of Malaysia in 2000 in the implementation of the Kuala Lumpur Action Plan. This is an initiative of Malaysia when it hosted the APEC Summit in 1998 to promote the development of skills among APEC members. On this initiative, Malaysia had, during the meeting of SOM III in September 2000, proposed to set up an APEC network of skills development centres, and the ESC had enlisted its support and recommended that the Human Resources Development Working Group took an active part in it. In APEC Summit in Canada in 1997, China proposed a project to promote cooperation of industrial science and technology among APEC members and called this project ‘APEC agenda for science and technology industry cooperation into the 21<sup>st</sup> century’. In 2000, China in cooperation with the Industrial Science and Technology Working Group had completed the Second

Report which set out the mechanisms through which the objective of building a prosperous and sustainable APEC community could be achieved. Examples of these mechanisms include improved availability of and access to information, improved business climate, and enhanced policy dialogue and review.<sup>8</sup>

Again, throughout the years, various economies may commit themselves to carrying out some activities that fall into the category of ECOTECH participation. For example, in 2000 Japan with cooperation of Indonesia and Australia, organised a workshop on the development of legal framework in APEC member economies. Or the organisation of the APEC Forum on Shared Prosperity and Harmony by Korea in Seoul in April 2000 where participants from APEC member economies discussed ways to design economic and social policies for sustained growth, and also proposals to strengthen social safety net activities in APEC to address economic disparities. But these activities and efforts must still be classified under 'Track I' of ECOTECH development as they concern formal representation of APEC members or fora. There are other types of activities that are undertaken outside the formal confine of APEC organisation or APEC process, either by individuals or groups of individuals, or institutions, or other organisations both governmental (but outside direct APEC connection) or non-governmental. This is where ECOTECH agenda of APEC could be more fruitfully carried out as it involves wider circle of the people. In this case, we would call this 'Track II' of ECOTECH development, and is regarded as a broader function of ECOTECH.

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<sup>8</sup> Those who are unfamiliar with the activities of the Industrial Science and Technology Working Group will find some of these explanations confusing. To fully understand the type of work that the ISTWG does, one needs to read or follow the activities of this APEC forum in full.

#### **4. Broad Function of ECOTECH: ‘Track II’ of ECOTECH Development**

We are now entering into an untested water of ECOTECH development. The origin of the idea is simple: ECOTECH no longer exists in order only to support trade and investment liberalisation and facilitation, but in order also to promote sustainable development of member economies. These two functions can go hand-in-hand, and do not require that the first function must be satisfied first before the second function is to be attempted. As so many have been involved in this ‘Track II’ of ECOTECH development, this section will simply list some of those ideas or concepts with a brief discussion on what they are all about.

##### **(a) Brunei’s Initiatives**

As mentioned earlier, Brunei has been working on its main contribution for 2000 APEC Summit for quite some time, and it had decided that the theme for its year of Summit would be human resources development in the context of ECOTECH. Sure enough, towards the end of the year, the Brunei’s proposal to promote HRD was ready. It was called ‘Human Capacity Building in APEC: Meeting the Needs of the 21<sup>st</sup> Century’. In it, it recognises the fact that, as they enter the 21<sup>st</sup> century, the economies of the Asia Pacific region are facing a new and demanding environment which has major implications for the development of human capital, and that the fruits of future economic success will depend on the capacity of people to acquire and use knowledge and on their ability to cope with change. And the cost of not addressing this issues is rising and is likely to continue to rise even more rapidly in the future. But to effectively handle this new development, innovative partnerships are needed. The governments alone do not have the resources or know-how to establish the technology, the infrastructure nor the scale of human capacity building which will be required in the future. As such, new and innovative partnerships between governments, the business sector and the training sector are needed.

On this general frame of reference, the Brunei's paper suggests that APEC can contribute to human capacity building at 3 main levels:

1. By cooperating among government officials within APEC working group activities. This is a typical 'Track I' activity;
2. By cooperation among government officials and non-government representatives (business, academic, organisations) with APEC working group activities;
3. By working in 'partnerships' with the business, education and training institutions and other organisations in activities that are going on outside the APEC working groups, and so on.

As an example of how these new relationships in ECOTECH could be established, the paper suggests a few concrete activities such as the international provision of education services and the trend toward developing cross borders alliances between training and education institutions; the sharing of information in management of education and promoting the use of technologies; and the development of distance learning. The process does not stop here even when the 2000 Summit is over. Indeed the Brunei's Initiative has been extended across borders and across time. In 2001, Brunei has invited China, the APEC host for that year's Summit, to join hands in organising, in China, a summit meeting on APEC human resources development and capacity building at which government representatives from various member economies and representatives from business and academic circles will discuss the issue of APEC human resources development and capacity building in the new century.<sup>9</sup>

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<sup>9</sup> President Jiang Zemin of China had already announced the theme of the 2001 Summit as 'Meeting New Challenges in the New Century: Achieving Common Prosperity through Participation and Cooperation'.

**(b) FDC's commitments**

The Foundation for Development Cooperation (FDC) is a private, independent and non-political organisation based in Brisbane, Australia, with its primary interest in the promotion of development cooperation in the Asia Pacific region. Through its former Executive Director, Dr. John Conroy, the FDC was involved in the setting up of the so-called APEC Policy Dialogue Group consisting of academics, technocrats and private individuals working on APEC policy issues and development, especially on the economic and technological aspects of APEC. Since 1995, the FDC has convened several meetings of this Policy Dialogue Group in various places where APEC ECOTECH policies are being formed or discussed such as in Japan in 1995, the Philippines in 1996, Canada in 1997, Malaysia in 1998, New Zealand in 1999, and Brunei in 2000, and has published several important papers and monographs on ECOTECH that have important bearing on the development of ECOTECH agenda in APEC. The principal brain behind these documents and studies is Dr. Andrew Elek of the Australian National University who has been instrumental in suggesting many innovative ideas on how APEC ECOTECH should move forward.<sup>10</sup> It is these commitments by the FDC and its supporters that provide good prospects for the future development of APEC ECOTECH.

This, the FDC has done by showing that the trade and investment liberalisation and facilitation elements of APEC need effective economic and technical cooperation components in their operations. Not only that the TILF and ECOTECH do not conflict with one another, the ECOTECH actually is the heart that sustains the life of APEC, as we have alluded to earlier. The FDC was involved in the formulation of the Manila Declaration in 1996, the Kuala Lumpur Action Plan in 1998,

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<sup>10</sup>The three important monographs authored or co-authored by Dr. Andrew Elek and published by the FDC are 'Forging New Partnerships: Economic and Technical Cooperation and the APEC Process' (1998); 'ECOTECH at the Heart of APEC: Capacity Building in the Asia-Pacific Region' (1999, with Dr. Hadi Soesastro; and 'Capacity Building in the Asia Pacific: A Way Forward for ECOTECH' (2000).



and the Brunei's Human Capacity Building Scheme in 2000. There are stages in which the FDC has worked through in its promotion of APEC ECOTECH. Since 1997, it has decided on four strands or classifications of ECOTECH activities namely:

- Policy development, such as the exchange of information or expertise and the design of potential cooperative activities;
- Technical cooperation, such as specific programs to upgrade expertise, institutional capacity or technological capability;
- Infrastructure-building, especially where additional capacity can benefit several Asia-Pacific economies; and
- Economic policy coordination, to help overcome short-term macroeconomic or balance of payments problems.

The latest contribution of FDC (again, through Andrew Elek) has shown that there has been progress made of many of the above activities, in cooperative policy development, in economic policy coordination, and in infrastructure cooperation. But, the activities on technical cooperation are still lacking. The FDC proposes that instead of an economy-by-economy approach to technical cooperation, APEC should encourage cooperation from the whole region. It can do this by identifying the demand for certain types of capacity-building, then enlisting the help of one or more existing development agencies (not a new one) to raise necessary funds to finance them. Including in this fund-raising activities are arrangements for implementation, cost-recovery, risk management, and debt servicing. On the whole, these FDC's commitments are very valuable to the development of ECOTECH in the future, and certainly the broader function of the ESC should include contributions from an NGO like this.

### **(c) ABAC's Challenge**

The APEC Business Advisory Council (ABAC) was created in 1995 by the APEC Summit in Osaka. It is supposed to be a permanent

organisation of the private sector in APEC, working independently of the APEC official systems, to promote the same goals of APEC. It is an influential body with its own administrative organisation and working systems, and its Chair gets invited to speak to all APEC senior officials' meetings, the AMM, and the AELM. Particularly at the AELM, ABAC through its Chair will get a high-profile opportunity to address the economic leaders himself on what ABAC would recommend APEC to do for the coming year or in the future.

Since its inception work plan in 1996, ABAC has always been supportive of ECOTECH. In its 1996 Report to the economic leaders, ABAC proposed that the economic leaders launch a new model of economic and technical cooperation based on strategic focus as set out in the Osaka Action Agenda, on partnership between government and the business/private sector, and on a new APEC Network for Economic and Technical Cooperation. Specifically ABAC recommended four priority areas for APEC, namely infrastructure, small and medium enterprise development, human resources development, and technology cooperation. On government partnership with the private sector, ABAC suggested that a regional framework be set up whereby the business/private sector be attracted to provide resources and expertise through incentives that confer benefits to all concerned. As for the APEC Network for ECOTECH, ABAC recommended that this organisation draw its members from governments and the private sector of APEC, managed by a board of directors from both sectors, and financed by voluntary contributions from governments and the private sector.

The ECOTECH themes have appeared in every ABAC report to economic leaders since then. In 1998, ABAC believed that TILF and ECOTECH were two parts of the same agenda. In its own words, "... the benefits of liberalisation and facilitation cannot be fully realised without building economic capacity for sustained development". In 1999, ABAC set up the Capacity Building Task Force (CBTF) as part of the work programs for that year. Referring to the Bogor goals, the CBTF believed that to reach those goals would mean coping with the effects of

liberalisation and other changes such as the shock of financial crisis, other pressures associated with growth, and the impact of new technologies. More specifically, the elements of a capacity building program envisioned by the CBTF would include such areas as capital market development and strengthening, promotion of corporate governance and regulatory reform, improvement in telecommunications including e-commerce, business-to-business skill transfers, and improvement in procurement system. Finally, in 2000, ABAC had told the APEC leaders that while APEC must stay on track in its liberalisation and facilitation agenda because trade and investment are central to the prosperity of the region as a whole, it must go beyond acknowledging the need for capacity-building to giving substance to it. More specifically, the ABAC Chair had suggested that APEC promote capacity building initiatives that will build stronger financial systems at the regional and national levels as well as to improve access to technology.

There is no denying that ABAC has posed a challenge to the APEC process to take up what is necessary to bring about improvement and progress in ECOTECH. The point is how can this be done, or how all these recommendations be implemented, or how ABAC could be made to work more closely with APEC, especially the ESC which looks after the economic and technical cooperation matters for APEC.<sup>11</sup> While a lot need to be done on the government side, the private sector itself may need to work harder too, to play more active part in its closer relationship with the government.

#### **(d) TASC's Experiment**

The last point made above is exactly what the Thai APEC Study Centre (TASC) is trying to do or to bring into reality. It has realised the

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<sup>11</sup> For a more detailed argument in favour of such a closer relationship between ABAC and the ESC, see Medhi Krongkaew, 'Closer Relations between ABAC and the ECOTECH Subcommittee: A New Development', paper presented at the Symposium on Themes for APEC 2001, organised by the Shanghai Institute for International Studies, in Shanghai, 8-10 May 1999.

there is an urgent need for the government to work more closely with the private sector in any country or economy to bring about greater economic prosperity, and Thailand is no exception. So, as part of its duties to study the involvement of Thailand with APEC, the TASC had launched a project to bring in the three groups of people in the Thai society together, namely the government, the business sector, and the academic. The business sector here is ABAC Thailand which consists of three business organisations, namely the Federation of Thai Industries (FTI), the Board of Trade of Thailand (BTT), and the Thai Banking Association (TBA). However, due to their busy schedules, none of the responsible officers of these three organisations could take part in the panel discussion of the workshop. However, their substitutes or replacements from the three organisations will speak at the workshop instead.

As the TASC has already organised a brainstorming sessions among few people who either are familiar with APEC, or have worked with APEC as part of national representatives before, the results or outcomes from this brainstorming session can be very useful in setting the guideline for the workshop among a larger group of people later. It was discovered during the brainstorming session that there were a lot of problems associated with the management of APEC affairs in Thailand. For example, there is inadequate preparation for the opening up or liberalisation of crucial commodities; a lack of policy coordination among government agencies, a lack of studies that can be used to back up national demand or counter the arguments from trading partners; a lack of negotiation skills; and a possibility of policy conflicts among domestic line agencies. These questions may be addressed in a larger workshop later too. But, so far, some concrete ideas have been proposed to bring about realistic ECOTECH projects that benefit all concerned.<sup>12</sup>

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<sup>12</sup>The national workshop on 'How to Make ECOTECH Agenda Come True in Thailand?' was organised by TASC in Bangkok on December 18, 2000. Dr. Supachai Panitchpakdi, the Chairman of the National APEC Committee of Thailand (and the next Director of the WTO) presided over the opening and gave a keynote address to the participants.

Some of these concrete ideas include the setting up of the ‘national agenda’ for trade and investment liberalisation, the serious promotion of research and development (R & D) in all sectors in the country, the intra-governmental coordination on national positions, the upgrading of negotiation skills, and so on.<sup>13</sup>

### **(e) PECC’s Partnership**

Among non-governmental organisations (NGOs) that are sympathetic to ideas that APEC stands for, the Pacific Economic Cooperation Council (PECC) can be counted among these NGOs. Indeed, PECC is often regarded as the precursor of APEC because it supports free trade and investment in the Pacific region. Although PECC is mainly concerned with the trade and investment aspects of this Pacific cooperation, it sometime involves with the ECOTECH elements as well. A look at the current task forces of PECC will attest to the above statement.<sup>14</sup>

Today, PECC is the only NGO that is allowed the status of an official observer in all of the APEC policy meetings (SOMs, AMM, and AELM). Throughout the years, these mutual trust and respect have developed between the two organisations. According to Mignon Chan, the Director General of PECC, PECC will continue to play the responsible roles of policy herald, independent analyst, constructive partner, objective supporter, and community builder. However, some pending issues such as membership cohesion, underutilised potential, fragmented coordination, the balancing act between long-term vision and short-term problem-solving roles of PECC, and the problems of resource pooling

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<sup>13</sup>This project is still on-going. The Thai APEC Study Centre has just commissioned Ms. Jaroenjit Pothong, the Assistant to the ESC Chair, to continue her work on the development of joint public-private sector activities on ECOTECH in Thailand.

<sup>14</sup>The task forces that are clearly related to ECOTECH include the Human Resources Development Task Force, the Science and Technology Task Force, the Small and Medium Enterprise Network, and the Sustainable Cities Task Force.

still cause some problems between APEC and PECC despite long partnership between the two.<sup>15</sup>

#### **(f) Japan's Gambit**

In the past two years, Japan has shown a very noticeable tendency to support ECOTECH agenda in APEC. Apart from the request for the ESC to review Part II of the 1995 Osaka Action Agenda which was completed successfully in 2000, Japan has also succeeded in getting the endorsement of several ECOTECH-related projects in the APEC process such as the legal framework project in 2000, and the capacity-building project for a new round of trade talk in the WTO scheduled for 2001. Japan has also expressed its willingness to allow part of funds kept at the APEC Secretariat to finance TILF projects to be used to support ECOTECH projects. Certainly this development will go a long way to broaden the function of ECOTECH in the APEC process.

In May 2000, Japan proposed another ideas called 'Evolving Cooperation Initiatives'. The main reason for this gambit is the realisation that APEC ECOTECH activities are not focused or well organised enough to achieve policy goals, or not direct enough to respond to actual needs of individual economies. So, it proposes to make APEC ECOTECH activities more policy-oriented, more demand-driven and more effective in order to strengthen the linkage between ECOTECH activities and TILF and to contribute to enhancing the Strengthening of Markets initiatives in APEC. There are several concrete steps involved in this proposal, as follows:

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<sup>15</sup> For more details on the role of PECC as a supporting institution to APEC, see Mignon Chan, 'The Role of PECC in support of APEC: Problems and Prospects', paper presented at the regional conference on APEC Update 2000: the Role of Institutions in Support of APEC, organised by the Thai APEC Study Centre, Thammasat University, in Bangkok, 1 September 2000.

- The holding of seminars or workshops to bring out problems facing each economy and share information on the issues;
- The formation of 'Friends Economies' among interested economies to work together on common issues;
- The announcement of needs among interested economies so that these needs are known and assistance forthcoming;
- The formulation of collective action plans among interested economies to build policy framework as well as to find assistance for capacity building;
- The sharing of information on cooperation experience to improve actual cooperation activities;
- The report of progress to AMM and AELM to sustain the interest of these initiatives

In fact the seminar on legal infrastructure development with Australia and Indonesia, and the seminar on SME and new business development are part of this Japan's 'Evolving Cooperation Initiatives'. It is obvious that this kind of activities will also broaden the scope of ECOTECH function.

#### **g) APIAN's Support**

Finally, through the efforts of a group of academics in the APEC Study Center Consortium under the initiation and leadership of Dr. Richard Feinberg of the University of California at San Diego, the APEC International Assessment Network (APIAN) was formed at the end of 1997. Its main aim is to track and assess the design and execution of selected APEC initiatives. Its mission is to enhance knowledge among government officials and the general public with regard to APEC initiatives, to encourage the fulfillment of APEC objectives and commitments, and to identify ways for APEC to improve its performance. It took two years to complete its first experiment of assessing and evaluating some APEC initiatives and projects. The difficulties involved are obvious: there was little financial support among researchers who

worked mainly on a voluntary basis; the issues are difficult and the evaluation of these issues is even more difficult; and there is no official support that could make these assessment and evaluation easier.<sup>16</sup>

There are several interesting findings concerning ECOTECH in the APEC process. The followings are some of the findings on APEC ECOTECH for the year 2000.

### **Problems of ECOTECH**

1. Excessive diffusion of limited resources: ECOTECH's scope is too diffuse, with too much duplication and overlaps;
2. Proliferation of ECOTECH fora: ECOTECH working groups, task forces, and 'networks' have multiplied over time. This proliferation adds to the sense of confusion and inefficiency, and makes it difficult to set priorities and to coordinate efforts;
3. Lack of coordination around defined APEC objectives: APEC lacks the capacity to achieve the level of coordination required for effective implementation of some wide-ranging initiatives such as the APEC Food System;
4. The ESC lacks adequate authority: Not only authority, but resources and tenure to fulfill its missions;
5. Many ECOTECH initiatives are resource-starved: APEC has not yet developed strong enough ties with existing multilateral lending agencies such as the Asian Development Bank (ADB) and the World Bank. Nor has APEC devised adequate mechanisms for channeling bilateral sources into priority APEC projects.

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<sup>16</sup>But the lack of official support could be looked upon as a good thing because it means that APIAN can maintain its independence in its judgments.



### **Recommendations of ECOTECH**

1. APEC should overhaul its ECOTECH programs: APEC needs to streamline ECOTECH programs, to set priorities, to rationalise working groups, and to improve coordination among ECOTECH fora. The ESC should be given more authority and resources to pursue its mandates, and should be given the jurisdiction to review ECOTECH-related activities of TILF working groups. The ESC's reliance on working groups and member economies to self-evaluate their own performance incurs obvious limitations;
2. ECOTECH needs more active funding: 'ECOTECH Funds' could be established in collaboration with such international financial organisations as the ADB, and use APEC creativity to catalyse financial support from public and private sources behind APEC priorities;
3. APEC should mandate action plans for ECOTECH: Individual action plans (IAPs) and collective action plans (CAPs) should be prepared for ECOTECH.

## **5. Summary and Concluding Remark**

In this paper we have attempted to investigate the development and changing role of the economic and technical cooperation or ECOTECH in APEC in the last half decade or so. The paper began by referring to the need to define a new role for economic and technical cooperation once the goals of free trade in the Asia Pacific region are set for both developed and developing member economies in APEC. This new role for ECOTECH became clearer with the detailed specification in the Osaka Action Agenda, the Manila Declaration, and the establishment of the ESC, but then the increased ECOTECH activities in various APEC fora and economies have also clouded the true function of ECOTECH and its designated overseer and administrator, the ESC. The paper discussed the narrow function of ECOTECH which is what has transpired

with the official APEC organisations and mechanisms, and then looked at the broader function of ECOTECH where the people or organisations involved have expanded beyond the confine of official APEC organisations into other private and non-governmental organisations as well. This is what and where ECOTECH should be, but in coping with this increasingly complex nature of relationships within the present APEC process, ECOTECH has found itself trapped in its shifting roles within the APEC process. The prospect for ECOTECH is not so much what a way forward is, but an appropriate way out should be.

ECOTECH is at a crossroads. The past three years that the ESC has carried out its duties have shown that there are a lot of problems that remain unsolved, and new problems that have cropped up along the changing nature of APEC, where trade and investment liberalisation and facilitation are no longer the all-encompassing goals of APEC. Trade and investment liberalisation will lose its meaning if members are not able to compete fairly with one another, but one way to enable such fair and open trade is to promote greater economic and technical cooperation, to bring every member to more or less the point where liberalisation does not mean exploitation and unfair advantage. ECOTECH must be given equal, if not greater, emphasis in APEC in comparison with TILF. There is no conflict here if this is done, but if ECOTECH is given a subservient role, then conflict is certain to happen.

It is refreshing to see that an outside organisation like APIAN would see the problems of ECOTECH as they should be seen. It is fitting to end this paper by saying that by proper placing the importance of ECOTECH in the APEC process, by streamlining ECOTECH functions among APEC fora and what each economy can do in its ECOTECH activities, and by giving greater authority and resources to the ESC, not only that we find the way out for ECOTECH, it is also a way forward for APEC.

### **Box 1: Terms of Reference of the SOM Sub-committee for Economic and Technical Cooperation**

#### **A. BACKGROUND**

1. SOM has been mandated by Leaders to mandate and coordinate the APEC Economic and Technical Cooperation (ECOTECH) agenda. In Vancouver, Ministers have committed to further strengthen economic and technical cooperation in APEC by fully implementing the Framework for Strengthening Economic Cooperation and Development, which was agreed in Manila. In this connection, Ministers endorsed the proposal by Senior Officials to establish a SOM Sub-Committee for Economic and Technical Cooperation.
2. The SOM Sub-Committee will assist the SOM in coordinating and managing APEC's ECOTECH agenda, as well as identifying value-added initiatives for cooperative action.

#### **B. OBJECTIVES**

3. The main objective of the SOM Sub-Committee is to advance more effective implementation of the APEC's ECOTECH agenda by consulting with and integrating the efforts of various APEC fora through a results-oriented, outcomes-based approach which benefits all member economies; providing a policy management tool for strengthening and streamlining APEC's work; and providing guidance on possible actions which could be undertaken to achieve APEC ECOTECH goals, namely:
  - ☐ To attain sustainable growth and equitable development in the Asia-Pacific region;
  - ☐ To reduce economic disparities among APEC economies;
  - ☐ To improve the economic and social well-being of the people; and
  - ☐ To deepen the spirit of community in the Asia-Pacific.

4. The pursuit of the ECOTECH goals through concrete projects will take into consideration members' diverse and complementary capabilities and guided by the principles of:

- ☐ Mutual respect and equality;
- ☐ Mutual benefit and assistance;
- ☐ Constructive and genuine partnership; and
- ☐ Consensus building.

5. The SOM Sub-Committee will serve as a forum to discuss, formulate as well as coordinate action oriented integrated strategies in consultation with existing APEC groups and the business community, as necessary to implement the APEC Framework for Strengthening Economic Cooperation and Development which has identified the following six priority themes:

- ☐ Develop human capital
- ☐ Develop stable, safe and efficient capital markets
- ☐ Strengthen economic infrastructure
- ☐ Harness technologies for the future
- ☐ Safeguard the quality of life through environmentally sound growth
- ☐ Develop and strengthen the dynamism of SMEs

#### Activities

6. The SOM Sub-Committee will:

- ☐ Report to SOM on its proposed work program and assist the SOM to effectively implement the 1996 Framework for Strengthening Economic Cooperation and Development. In so doing, the SOM Sub-Committee shall ensure that all the elements of the Framework are developed.

- ☐ Review progress of APEC activities towards achieving APEC ECOTECH goals.
- ☐ Identify and recommend for Senior Officials consideration specific issues and value added initiatives to assist the achievement of ECOTECH goals taking into account the economic situation, requirements and capacities of all member economies.
- ☐ Examine and evaluate ECOTECH programmes and activities and recommend to Senior Officials means to achieve visible, targeted and result-oriented deliverables to address member economies priorities.
- ☐ Assist the SOM to improve the management and coordination of ECOTECH activities among APEC fora, including APEC working groups and policy level committees, with a view to improving the identification and coordination of new cross-cutting issues.
- ☐ Evaluate proposals to include new priority areas within the Framework for Strengthening Economic Cooperation and Development.
- ☐ Encourage active participation of the private sector in the activities of economic and technical cooperation. Consider the recommendations of ABAC regarding the process of economic and technical cooperation in APEC.
- ☐ Undertake ECOTECH-related tasks as directed by Senior Officials.

**Source:** APEC Secretariat, *2000 Report on Economic and Technical Cooperation, Ministerial Meeting XII*, November 2000.

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## 4. ECOTECH-IAP: A NEW CHALLENGE FOR APEC? \*

By Medhi Krongkaew \*\*

### 1. Introduction

The events surrounding the creation and promotion of economic and technical cooperation (ECOTECH) in APEC are not always pleasant ones. In its relatively youthful existence, ECOTECH (and its operational body, the SOM Subcommittee on Economic and Technical Cooperation, or ESC), has gone through heated debate on its creation, uncertainties about its direction, and doubts concerning its usefulness. However, at the beginning of the second decade of APEC, ECOTECH has assumed a new position, a position that could indeed define a new role of APEC in international economic relations. ECOTECH has made an inroad into the thinking of many people, both inside the APEC process as well as the general public at large as to its promising role in bringing about a faster realization of freer trade and investment in the Asia Pacific region

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\* Revised version of the paper presented at the International Workshop on Promoting ECOTECH in APEC: Bridging the Digital Divide and Other Issues, organised by the Foundation for Development Cooperation (FDC) and the China National Committee for Pacific Economic Cooperation, in Beijing, 20 April 2001.

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I wrote this paper in my personal capacity as an APEC researcher, not as Chair of the ECOTECH Subcommittee of APEC SOM of which I neither have the authority nor the authorisation to represent. I wish to thank CSEAS for sponsoring my stay in Kyoto, and the Thai Ministry of Foreign Affairs in supporting my work at the SOM Subcommittee on ECOTECH which enables me to write this paper. I also thank Mohan Mathews, Program Director in charge of ECOTECH at the APEC Secretariat for many of his suggestions and comments, and also Ms. Jaroenjit Pothong, Assistant to the ESC Chair, for her various assistance and feedbacks. I, alone, am responsible for all the errors and shortcomings of this paper.

and also more sustainable development among less developed APEC members. Its latest, and probably most exciting development to date, APEC Ministers, in their 12<sup>th</sup> meeting in Brunei in November 2000, has reaffirmed the importance of ECOTECH in achieving the Bogor goals of free trade and investment in the APEC region by 2010 and 2020, and as a means to a more focused and intensified action agenda, has instructed APEC officials to consider the possibility of establishing individual action plans or IAPs on ECOTECH.

What is an IAP on ECOTECH? This seemingly simple question is indeed quite difficult to answer. In the meeting of the first ESC for 2001 in Beijing in February, this was the subject of a very lively discussion that ran for almost one full day. At the end, with no agreement reached on the understanding of this ECOTECH-IAP, members were asked to spend more time thinking about it and communicating with one another on their understanding and perception of the concept. This short article is my small contribution to the discussion on the true meaning of ECOTECH-IAP. I will begin by reiterating, in Section 2, the importance of ECOTECH in the context of the desirable APEC process, then switch on, in Section 3, to the discussion on the IAPs on trade and investment liberalization and facilitation (TILF) as an example on how the concept of individual action plan has been put into practice. Section 4 is the main section that discusses various concepts of ECOTECH-IAPs. It is here that major points concerning the understanding (and misunderstanding) of ECOTECH-IAPs are considered. Section 5 is my preliminary attempt to construct a template for an ECOTECH-IAP. Finally, I make some concluding remarks in Section 5.

## **2. The ECOTECH Struggle**

When APEC was formed in 1989, the basic idea behind this regional grouping in the Asia Pacific was to protect its members from possible negative effects from a possible trade war between the US and Europe in the event of the failure of the Uruguay Round of Multilateral

Trade Negotiations. But when the Uruguay Round became successful, APEC had changed from a possible trade bloc to an open economic association, harbouring ‘open regionalism’ whereby members promised to liberalise their trade and investment unilaterally and give equal treatment to members and non-members alike. Trade and investment liberalisation and their facilitation became the main focus of this new regional grouping. Although economic and technical cooperation was not mentioned as part of the main objectives of APEC, the essence of this aspect of regional grouping could be found in the functions of several working groups that were set up at the same time as the main APEC body. In 1994 when Indonesia hosted the APEC leaders’ meeting for that year, it insisted that trade and investment liberalisation and facilitation be accompanied by ‘development cooperation’ aimed at developing capacity in the developing economies to be able to take part in the liberalisation process. This was the closest reference to economic and technical cooperation as we know of it today.

It was not until 1995 when Japan hosted the APEC leaders’ meeting for that year in Osaka that economic and technical cooperation was given an unequivocal role as the third leg or pillar of the APEC process. The guideline for APEC members to attain the Bogor goals were given in a monumental document, the Osaka Action Agenda (OAA), which consisted of two parts, the first part concerning TILF, and the second part, ECOTECH. In this Part II of the OAA, Japan proposed three basic principles that APEC economies should follow in order to achieve the objectives of the Bogor goals. First, APEC economies would pursue economic and technical cooperation in order to attain sustainable growth and equitable development while reducing economic disparities among members and improving economic and social well-being. Second, APEC economies would conduct economic and technical cooperation on the basis of the principle of mutual respect and equity, mutual benefit and assistance, constructive and genuine partnership and consensus building. And third, APEC members would develop an environment favourable to the effective operation of market mechanisms and integrate into

the cooperation process, the business/private sector as well as involve wherever possible other pertinent institutions. Thirteen specific areas were listed in this Part II of the OAA with examples of concrete action programs given in the Annex of the OAA.

The next year in 1996, APEC leaders in their fourth annual meeting in Manila, further advanced the development of ECOTECH concept by identifying six priority areas that would come under the operational framework of ECOTECH. These six priority areas include human capital development, capital markets development, economic infrastructure strengthening, technology harnessing, promotion of environmentally sound growth, and development and promotion of small and medium scale enterprises.<sup>1</sup> Even with these small number of specific priority areas, ECOTECH matters became quite complex, and the coordination and management of ECOTECH agenda both in the original OAA and under the new Manila Declaration had become difficult for APEC senior officials. Therefore, in 1997, some economies began to propose the idea of creating a committee to look after the operation and management of the ECOTECH agenda similar to the Committee on Trade and Investment (CTI) which has been in existence since 1993 to look after the operation and management of the TILF agenda. This was strongly opposed by some economies fearing that by creating a separate committee for ECOTECH, the attention and focus of APEC might be deflected away from trade and investment liberalisation and facilitation which was the most important objectives of APEC. After much heated debate in a senior official meeting in Canada in 1997, a compromise was reached whereby a subcommittee rather than a committee would be set up to work directly under senior official mechanism. This subcommittee would be called SOM Subcommittee on Economic and Technical Cooperation or ESC for short.

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<sup>1</sup> To me, it was unclear why APEC Ministers and Leaders selected these six priority areas and not others, and which of these six is more important than the other.

Thus the ESC was born and started to work in 1998. After 3 years the direction of the ESC has become clearer in its function to assist senior officials in coordinating and managing ECOTECH agenda as well as to identify value-added initiatives for cooperative action.<sup>2</sup> But it is too early to say that the problems of the ESC in the APEC process have been solved. Its existence as a subcommittee is a source of confusion to many people outside the APEC circle, as this is different from many subcommittees under the jurisdiction of the CTI. As long as the ESC remains a subcommittee, the legacy of conflict concerning its birth will also remain. Sooner or later, this issue of the status of the ESC in the overall framework of APEC fora will come up onto the surface to be discussed among senior officials and other official organisations. At present, the ESC has been involved in both narrow and broad functions of the ECOTECH development which I call 'Track I' and 'Track II' development. The adoption of the ECOTECH-IAP could in fact enhance the status and position of the ESC in its handling of the ECOTECH matters. But before it passes this stage, all members must be clear on the meaning of this ECOTECH-IAP. This is why we must learn something from the TILF-IAP to see if they could provide good examples for ECOTECH agenda as well.

### **3. TILF-IAP as an Example**

Part I of the OAA is about how APEC members could prepare themselves to reach the Bogor goals in 2010 or 2020. True to its fundamental support of open regionalism, OAA Part I recommends each APEC member to initiate individual action plans for its own trade and investment liberalisation. As specified in the APEC Individual Action Plans Format Guidelines, action plans will contain specific and concrete

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<sup>2</sup> I have written a paper discussing various problems concerning the status and operation of the ESC and suggesting ways and means of increasing the effectiveness of the ESC in its handling of the ECOTECH agenda. For details, see Medhi (2000).

details, with time frame, for the near and medium term, while outlining the basic direction toward 2010 or 2020 as the case may be. These plans will also be of a rolling nature, with revision conducted through consultation process and reviews which reflect the continuous and voluntary improvement of the action plans. The first TILF-IAP format was developed by the CTI in 1996, which enabled several APEC members to construct their IAPs toward the end of that year. So, 1996 marked the first year in which these TILF-IAPs became available. A typical IAP will consist of a summary cover sheet which gives a summary of specific changes against the last version of the IAP, a summary in matrix form detailing actions for the short term, the medium term, and the long term for each TILF issue specified in the OAA, and a narrative bullet-points summarising the highlights of the IAP, heading statements, and detailed statements. In detailed statements, the following issue areas are included: tariffs, non-tariff measures, services, investment, standard and conformance, customs procedures, intellectual property rights, competition policy, government procurement, rules of origin, dispute mediation, mobility of business people, implementation of Uruguay Round outcomes, and information gathering and analysis. In 1999, member economies agreed to adopt electronic version of the IAP preparation (the e-IAP), and for some economies, their annual IAPs are available in electronic format.

When the IAP concept was launched and accepted by all APEC members in 1996, this had created a great deal of excitement among members and non-member alike. The uniform efforts by all members to accommodate this IAP requirement showed a good cooperative spirit among APEC members. These members also take turn to offer their IAPs for peer reviews, which take place regularly at subsequent senior official meetings (SOMs). Despite a report by a group of researchers that the progress of these IAPs among all APEC members were slow and uneven, the TILF-IAP concept remains one of the most progressive examples of concerted unilateral efforts at trade and investment liberalisation

that APEC can always claim.<sup>3</sup> At least the concept of IAP has become so well known that it is often used to show the uniqueness of APEC's voluntarism. In other words, IAP has assumed a special meaning that goes beyond the pure factual details of what have been included in the matrix of tariff and non-tariff changes. This TILF-IAP has reflected the individual, unilateral, commitments of APEC members toward free trade. It is this type of meaning that the word IAP is to be better understood.

#### **4. ECOTECH-IAP: What It Is; What It Is Not.**

In the previous two sections, I have attempted to show two points: one is to show that ECOTECH has become a very important addition to the basic APEC concept that traditionally concentrates on trade liberalisation matters only, and the other is to show that the word IAP has developed its own special meaning that conveys the sense of unilateral commitments toward a set goal, which in the TILF case, is free trade and investment in the Asia Pacific region. Under these two conditions, the meaning of the term ECOTECH-IAP has become very clear to me. I see it as a remarkable foresight that all APEC members have put ECOTECH in the forefront of the APEC process, and noble and honourable commitments that APEC members have pledged to prepare themselves to trade and invest freely with one another.

There are of course several ways in which preparation for free trade and investment could be undertaken. There is no lack of efforts in developing members of APEC to try to become ready to trade and invest with their more developed partners, and similar efforts in developed

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<sup>3</sup> See the report by Yamazawa Ipppei et al. which traced the progress of each APEC economy in its liberalising quest toward free trade in the year 2010 and 2020. While the outcome of the evaluation did not show a fast enough declining trends toward zero tariffs and other removal of non-tariff barriers in the target years, it may be too harsh to believe the satisfactory progress toward Bogor goals must be judged by the magnitude and rate of decline. It is possible that tariff reduction and the fall in non-tariff barriers may come in wave rather than continuous fall, and big adjustments could be forthcoming nearer to the deadlines.

members of APEC to help their less developed partners to be able to do so by providing technical guidance, assistance, advice and best practices. Recently a new thinking has gained currency on top of the interpretation to the meaning of ECOTECH. ECOTECH now means more than just modality of preparation for free trade and investment, it also means a separate, stand-alone, endeavour to develop each individual economy into a self-sustaining and economically-sustainable entity. This latter meaning was used to be looked upon negatively by some free trade proponents because anything that strays from free trade movement would be considered undesirable. A new way of thinking has replaced this narrow, self-serving view of free-trade-at-all-costs. What good is free trade if one partner gains at the expense of the other partner? Free trade should bring in mutual net benefits, not the gains to one and the losses to the other. No country or economy would willingly sacrifice its own economic welfare simply for the benefits of others. But this country or economy may willingly sacrifice some of its economic welfare in the short run (through the pains of policy reform and adjustment, and other forms of preparation) in exchange for efficiency and equity gains in the long run. So, to help these economies to attain the level of development that trade and investment with one another will begin to produce mutual net benefits is part and parcel of the new thinking on the meaning of ECOTECH.

So, an individual action plan on ECOTECH can be looked upon as a commitment by APEC members to achieve either one of the two or both ECOTECH goals mentioned above. As these two goals will converge in the end, there is no conflict if one is achieved ahead of the other.<sup>4</sup> But it could be argued, however, that ECOTECH can be very wide, encompassing a large area of economic and other social activities.

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<sup>4</sup> This is a matter of domestic politics and strategies rather than international relations matters. Some economies may opt for free trade first and use the change brought about by free trade to mount domestic policy changes that will bring faster and more sustainable growth later. Other economies may do the opposite, that is to develop local economy first before open up more fully.



What parts or aspects of ECOTECH should members be involved in in their individual plan of action? This is a valid question and needs to be answered before one can proceed a step further. Taking note of the existing system of activities being undertaken by various working groups under APEC, these activities could be adopted as chosen activities under ECOTECH-IAPs. Or to make the whole process more manageable and more focused, only one or two major ECOTECH activities may be selected first, with other activities to be added or included later on. A good candidate for the first activity to be selected is human resources development or human capacity building as this is a well-recognised area that can bring about desired growth and development in any economy.<sup>5</sup> But this should not limit the choice and selection of any economy which finds a more appropriate activity in other areas.

Another way of looking at the true meaning of ECOTECH-IAP is to consider this new APEC activity as the missing link that will complete the whole circle of the APEC process. As things stand at the moment, only TILF has its individual action plans and collective action plans (CAPs), and as pointed out earlier, these activities were explicitly mentioned in the OAA Part I, whereas no equivalent actions were given on ECOTECH in the OAA Part II. As Japan, one of the proponents of ECOTECH-IAP has put it, while this OAA Part II has suggested a variety of ECOTECH measures to be undertaken by member economies, their implementations have not been followed seriously by member economies. In this respect, Japan has proposed that APEC be equipped with another separate engine to promote ECOTECH activities, that is to say, while all members, on the one hand, collectively implement the decisions made by leaders and ministers concerning ECOTECH, each member is, on the other hand,

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<sup>5</sup> This was indeed the position taken by Singapore in its proposal to prepare a prototype of an ECOTECH-IAP on human resources development for members to consider for adoption. This position and proposal has received wide support among APEC member economies in the meeting.

expected voluntarily to take such individual actions as listed in the OAA Part II.<sup>6</sup>

Despite the enthusiasm of the proponents of this ECOTECH-IAP, this concept is not without its sceptics. In the discussion in the first ESC meeting as well as after it, many questions were raised by various economies concerning this ECOTECH-IAP, not so much on the usefulness of ECOTECH on the APEC process as a whole, but on the failure of this new activity to add value to the existing activities, on the existence of alternative means that could achieve the same objectives, on appropriate timing of this new activity, on the difficulty in measuring the outcome of this new activity, and on the apprehension that this ECOTECH-IAP may in fact hide an agenda for some developing members to ask for financial assistance from more developed members. These questions and reservations are listed below. And in all fairness to the sincere reservations expressed by various economies, these questions can be satisfactorily answered by referring to the true nature of ECOTECH-IAP.

#### **(a) The Lack of Added Value of an ECOTECH-IAP**

Some members have expressed concern that this ECOTECH-IAP does not add value to the activities already being undertaken in various APEC fora. This is rather a matter of opinion. It is true that activities to be adopted in the ECOTECH-IAP could indeed be taken from other existing work programs, but the manner in which, or the procedure with which, this IAP is being pursued could not possibly lessen the value of the outcome that these efforts may bring. On the contrary, by becoming more direct and more efficient in the implementation of a chosen program, the value of the outcome could increase. Above all, this ECOTECH-IAP is the announced commitment that the economy in question is determined

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<sup>6</sup> It looks as though Japan has been working closely with China on this ECOTECH-IAP proposal, sharing the same ideas, direction, and emphasis of this new ECOTECH activity.

to achieve. Everything will be subject to open scrutiny and evaluation that can only bring acceptable results to the majority of the people (otherwise it would not pass the decision of policy makers).

### **(b) The Overlap with ECOTECH Clearing House Facilities**

In 2000, APEC leaders were able to announce the launching of the ECOTECH Clearing House facilities (or the Clearing House, for short) which was hailed as one of the most important ECOTECH achievements for that year. Some members were concerned that with this Clearing House still less than one year old and hardly reached its full-use potential, any new activity which overlaps with it would waste resources and create confusion. This question is easy to deal with, as the two activities are not the same. The Clearing House is web-based collection of all data and information concerning finished and on-going ECOTECH projects using APEC central funds as well as those with self-funding arrangements. It is a useful source of information for those who want to know what APEC has done in terms of ECOTECH activities, to start the evaluation of these activities, or to plan a new activity that will not duplicate or repeat old projects but extend or improve upon old projects. The ECOTECH-IAP will go beyond the Clearing House but may need to rely on the Clearing House for past records of who has done what, where, how or how well. It is true that in one original proposal for the ECOTECH-IAP, the stock taking of the past ECOTECH activities are required, but this step is not critical to the operation of the IAP and can be bypassed. But if such stock taking is to be undertaken, the Clearing House will become a handy source for that.<sup>7</sup>

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<sup>7</sup> In fact it can be argued that full utilisation of the Clearing House will become a prerequisite for the development and preparation of an ECOTECH-IAP.

### **(c) The Non-Quantifiability of ECOTECH-IAP Outcome**

According to some critics, ECOTECH-IAP will not work because it does not have quantifiable outcome like TILF-IAP which measures the progress toward free trade by how much and how fast tariffs have been reduced or other non-tariff barriers dismantled. There are at least two ways of dealing with this problem. One is to argue that everything can be quantified if one wants to. Students of economic benefit-cost analysis are all familiar with the discussion how economists value life, leisure, beauty, and other intangible costs and benefits. But a more appropriate way of dealing with the above question would be that quantifiability is not the most important criterion to judge the usefulness of any activity. Some activities can lead to an outcome that are difficult to quantify but is likely to be understood easily and quickly. On the contrary, some activities that have clear outcomes but convey little in terms of common understanding. ECOTECH-IAP on the language skills of workers in exporting industries may not be measured in terms of how many vocabularies they learn in a week, but in terms of how much more productive these workers perform their tasks because they understand the instructions given in foreign languages better.

### **(d) The Impossibility of Individual or Unilateral Nature of an ECOTECH-IAP**

Unlike TILF-IAP which possesses a truly individualistic nature of action, ECOTECH-IAP has been criticised by some critics as lacking the necessary qualification for an individual action plan. According to this view, ECOTECH activities are cooperative, not unilateral, in nature, therefore, they do not lend themselves to individual action plans. This may be partly true, as some of the earlier ECOTECH action plans, particularly the Partners for Progress (PFP) program launched by Japan

after the Osaka Summit in 1995 was one of this type.<sup>8</sup> But it would be wrong to limit action plans to those where many members need to join before they can called an ECOTECH-IAP. The PFP type of project can be undertaken both collectively and individually. For example, to refer to the actual projects that Japan supported under this PFP program, the first project was the Industrial Property Rights project undertaken with the Department of Intellectual Property, Ministry of Commerce of Thailand, the second was the Standards and Conformance Assessment Schemes undertaken with the Standards and Industrial Research Institute of Malaysia, and the third was the Competition Policy undertaken with the Department of Internal Trade, Ministry of Commerce of Thailand. Thailand and Malaysia could have undertaken these projects individually by inviting foreign and local experts to conduct seminars and training workshops to local officials from various government agencies who are involving with industrial property rights, standard and conformance, or competition policy.

#### **(e) The ODA Character of an ECOTECH-IAP**

Some critics may suspect that this ECOTECH-IAP is nothing but a proposal for foreign aid in disguise. If this should happen 50 years ago when most countries in the Asia Pacific region were so poor and backward

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<sup>8</sup> It is interesting to note that the PFP program was proposed by then Minister of Foreign Affairs of Japan, Mr. Kono Yohei, at the APEC Ministerial Meeting in Jakarta in November 1994. It was the same Minister of Foreign Affairs, Mr. Kono Yohei, who, at the APEC Ministerial Meeting in November 2000, proposed the establishment of the ECOTECH-IAP. Mr. Kono's PFP in 1995 could easily qualify to be his new ECOTECH-IAP in 2001. It seemed that Mr. Kono has had this notion of IAP on ECOTECH longer than any APEC ministers.

In its original form, mutual assistance and voluntarism were the basic principles of PFP. APEC members participated in a PFP project on a voluntary basis as partners in mutual cooperation. PFP projects expected that as many members as possible benefited from the projects, and they promoted mutual cooperation to the greatest extent possible. The contributions of members had gone beyond financial assistance and taken such forms as provision of facilities, dispatch of instructors and others. Financial contributions could come from both public and private sector contributions.

that they could do nothing much except waiting for foreign aid to come, then the above suspicion could have some validity. But APEC members today have come very far from the situation where aid, not trade, matters more to these people. At the level of development these economies are now in, it is trade, not aid, that matters more to them. Besides, these Asian Pacific economies have realised that aid without good reasons could harm the economy in the long run. The leaders of these economies have realised also that in the globalised world of today, countries that could not depend on themselves cannot survive and prosper. They must always be at ready to move with the world, and planning to receive more aid is certainly not a proper strategy of economic governance.<sup>9</sup>

#### **(f) The Confusion of the Word IAP**

While the use of the word IAP apparently mimics the already well-known use in TILF-IAP with an intention to make it easy to remember and to carry the same connotation of commitment, the meaning was lost on those who are not familiar with the APEC process. If this is the case, then by spending extra efforts in explaining the story behind the successful practice of TILF-IAP should remedy the situation. The other choice is to use an entirely new word (and the word ‘individual commitment’ has been suggested for this), but the beneficial impact of the word IAP would be lost. Given time, the confusion stemming from the use of the word IAP would disappear.<sup>10</sup>

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<sup>9</sup> The opposite could be true that the problems lie with aid donors more than aid recipients. Aid donors are suspicious of one another as to the ulterior motives and hidden agendas of certain aid givers.

<sup>10</sup> A good example of the use of word that conveys specific meaning is the use of the word ‘watergate’ whose suffix, gate, has connoted a covered-up scandal.

## 5. A Template for an ECOTECH-IAP

As a result of the discussion in the previous two sections, it is now possible to draw some pictures of what an ECOTECH-IAP will look like. ECOTECH-IAP is all of these:

- It is a project or program that each economy proposes to undertake individually within a specific time period (single-year or multi-year).
- The main purpose of this IAP is to achieve a certain goal in economic and technical cooperation areas that will help that economy attain a higher but more sustainable level of growth, and as such more conducive to getting more involved in freer trade and investment with other members.
- The target group of beneficiaries can be local people and population or people in other economies depending on the type of the IAP. A developing economy is likely to propose an IAP that will help build the capacity of their own people, increase the efficiency of their existing institutions, prepare various sectors in the economy to face changes brought about by freer trade and investment, and so on. A more developed economy may wish to help its less developed partners through sharing of best practices, technical advice and training, and other kinds of economic and technical cooperation.
- The main difference between this type of project or program contained in the IAP and other projects or programs done elsewhere is that the IAP is a publicly announced action programs which show the commitment of the government to achieve a set of ECOTECH goals. By forcing the government to publicly commit to do these ECOTECH projects or programs on a regular basis, it is expected that the possibility of achieving Bogor goals will be faster.

- Members can learn from one another on the type of projects proposed and undertaken. Joint activities could be adopted after each member is assured of mutual benefits. Financial as well as other assistance may be provided or received on voluntary basis when both parties are also certain of mutual benefits.
- The prospects of learning from one another are indeed a highlight of this ECOTECH-IAP. Imagine a situation where all 21 economies have committed to undertake IAPs on ECOTECH, say, on an annual basis and made these known to everyone. The impacts from this practice will be enormous. After a few years, this could lead a new chapter on how countries could develop and trade together. These IAPs will be far different from ordinary projects undertaken by various government agencies without much control, coordination or evaluation.

With the above preconditions of the ECOTECH-IAP in mind, we can proceed to build a template for an interested economy to adopt and follow the action steps involved in constructing and implementing ECOTECH-IAP. My preliminary suggestion for a template for an ECOTECH-IAP appears in Table 1.

From this table, it may be seen that the format is not much different from an ordinary project proposal. As mentioned earlier, the difference lies in the level at which this proposal is made (national as contrast to simple line agency), and the completeness of the proposal that must come from careful preliminary work on the subject areas. The first year IAP may start small, with less ambitious outcome so that responsible agency or agencies get the feel of conducting this kind of individual action plans on ECOTECH. Across-APEC comparison of completed IAPs should provide an interesting compendium of results that can be used to build on more sophisticated IAPs in the second and later years.



## 6. Summary and Concluding Remark

In this paper I have attempted to explain the meaning of ECOTECH-IAP as I understand it. To me, the idea of an ECOTECH-IAP is a major innovation that could push ECOTECH agenda onto a higher level of significance in the APEC process in the sense that participating economies will be forced to consider undertaking ECOTECH activities on a regular and continuous basis, and carry them out in an open, transparent manner. It is a unilateral commitment that aims primarily to enhance the economic and technical cooperation aspects within the confine of each economy first, utilizing own financial, manpower, intellectual, and technical resources, but technical assistance can be requested, or offered by other more equipped members. As the economic and technical cooperation covers a large ground, economy may focus on one or two priority areas at first, and human resources development or human capacity building could be an important candidate for the selection.

In this paper, I have argued that the ECOTECH-IAP adds value to the existing ECOTECH agenda, does not overlap with the ECOTECH Clearing House, could have quantifiable outcome if one wants to although this is not critical, can be undertaken unilaterally as well as collective once mutual benefits from participating partners are established, is not an ODA project in disguise, and is using the powerful meaning of the word 'IAP' to portray the seriousness of intention. The outcome of ECOTECH-IAPs from all 21 economies could be a spectacular collection of economic and technical development work that could define the new thinking on economic and technical cooperation to the world community. This ECOTECH-IAP is truly a new challenge for APEC in its second decade of existence.

One recent phenomenon that has spread widely in the Asia Pacific region and among several APEC members is the advent and proliferation of bilateral free trade agreements (FTAs). To some, this poses a threat to the cohesion of APEC in its trade liberalization efforts. To me, it does not. I believe in the dual system where bilateralism and multilateralism

can go hand in hand. As I hinted briefly in my paper (and explained in more detail elsewhere, such as in Medhi, 2001), I still have my positive outlook on the importance and relevance of APEC. Indeed, I see the emergence of these FTAs as enhancing ECOTECH aspects in APEC (and possibly the trade and investment facilitation aspects as well) by default. Once the Bogor goals are set and the IAPs on trade and investment liberalization are in place, the urgency in this aspect will become less (but pushed along concurrently by bilateral or regional FTAs). In its place, ECOTECH will become more important as members are trying get ready for the eventual free trade and investment in the Asia Pacific areas. The disappointment of the failure to launch a new round of multilateral trade negotiations (not the fault of APEC), will be more than made up by the success of this ECOTECH-IAP.

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**Table 1:** A Template for an ECOTECH-IAP

Action step	Activity	Explanation
1	Title of project or program, with rationale and time frame	Rationale for this project should be given special attention. The proposer should provide important background and explanation why such a project or program is needed, why existing knowledge is insufficient to meet the demand or requirement, and why this project or program must be undertaken now, with time frame of operation and completion.
2	Objectives and expected outcome	After rationale is adequately given, the objectives will follow naturally. A set of expected outcome should also be given.
3	People or organisations involved	List of people or group of people who will be involved in this project or program, and also institutions or organizations. Sometime this is known as the target group of the project: they must be identified.
4	Sequencing of Activities	The whole scenario of the project must be laid down from the beginning to the end: who is to do what, when and how.
	- preparation process	This may involve preliminary study, survey, consultation, networking, etc. to make sure that everything is ready before the action is to start.
	- Approval process	The line of authority is important here. Approval mechanism must be in place in the beginning, but once it is set up, everyone should be free to proceed according to the plan.
	- Execution process	Many components may be involved: actual training; analysis; demonstration; surveys; seminars; workshops; site visits; and so on.
	- Monitoring and evaluation process	Mechanisms must be designed to monitor the progress of the project and to be able to give on-going evaluation with feedbacks to improve on the implementation of the project.

**Table 1:** A Template for an ECOTECH-IAP (Cont.)

Action step	Activity	Explanation
5	Replication, dissemination, outreach	Once the project is completed, the responsible agency must think further on the replication of similar projects elsewhere. The outcome must also be publicized and disseminated to targeted public.
6	Resources requirement issues	At all levels of operation, financial, manpower, and other input requirements must be completed before the project is launched. There should be no ‘fishing expedition’ where the project is only idea in need of financial or other support.

**Box 1: Variations on the Theme of ECOTECH-IAP**

On 20 April 2001, the Foundation for Development Cooperation (FDC) based in Brisbane, Australia, in cooperation with the China National Committee on Pacific Economic Cooperation, organized a one-day meeting among its Policy Dialogue Group members and the Chinese officials and scholars involving with organizing the 2001 APEC Summit in China on the topic: Promoting ECOTECH in APEC—Bridging the Digital Divide and Other Issues. ECOTECH-IAP was one of the major issues discussed in the meeting based on the paper presented by Dr. Medhi Krongkaew. The followings are some of the points discussed:

1. Participants were unanimous in their agreements on the importance of ECOTECH in the APEC process.
2. If individual action plan on ECOTECH is to be considered, it was properly more appropriate to integrate this ECOTECH-IAP with TILF-IAP. In other words, it would be more appropriate not to classify individual action plans separately into TILF and ECOTECH but combine them together within the single APEC framework.
3. It was not advisable, if not impossible, to aim at a consensus on this ECOTECH-IAP among all members. It was more advisable for one or two economies (probably including the host economy, China) to go ahead with an experimental form of ECOTECH-IAP and expect others to follow suit when the outcome is satisfactory.
4. Many participants were still concerned with the difficulties in identifying the specific outcomes of ECOTECH-IAP in comparison with TILF-IAP. But perhaps to help in the understanding the difference between TILF and ECOTECH, it is possible to look at TILF as providing a clear target, whereas ECOTECH is about how to get there.

5. In order to keep agenda on ECOTECH-IAP manageable, a common theme or target on ECOTECH could be set, then individual members design their own project to fit in the agreed theme or target.
6. Participation from outside organizations such as ABAC, World Bank or ADB is important for the success of this ECOTECH-IAP.
7. Some bureaucrats did not like the idea of ECOTECH-IAP because this would put an extra burden on their otherwise already very busy timetable.

At the end of the meeting, participants were optimistic that ECOTECH-IAP would receive the attention it deserves in the further meetings of ESC, SOM and other APEC fora.

# **5. THE CURRENT STATE OF ECONOMIC AND TECHNICAL COOPERATION IN APEC: A NEW BEGINNING OR AN OLD REVISED AGENDA?\***

**By Medhi Krongkaew\*\***

## **1. Introduction**

Economic and technical cooperation or ECOTECH is really the Talk of the Town today in APEC. In almost every APEC meeting, whether within the official APEC circle or outside it, the subject of ECOTECH is likely to be brought up and discussed among participants. In the Brunei year of APEC Summit last year, ECOTECH was a major focus of the discussion from the first senior official meeting (SOM1) to the last senior official meeting (Informal SOM or SOM4), culminating in the Ministerial and Leaders' statements that emphasised human capacity building as one of the main deliverables for that year.<sup>1</sup> This special focus on human capacity building was carried over from Brunei to China this year in 2001, and jointly, they had just finished organising

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\* Earlier version of this paper was presented at the APEC Roundtable and APIAN Workshop on APEC at the Dawn of the 21<sup>st</sup> Century, organised by the Institute of Southeast Asian Studies, Singapore, 8-9 June 2001.

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I would like to thank Jaroenjrit Pothong and Mohan Mathews in providing various assistance and support. I also wish to thank CSEAS for sponsoring my stay in Kyoto, and the Thai Ministry of Foreign Affairs in supporting my work at the SOM Subcommittee on ECOTECH which enables me to write this paper. I wrote this paper under my own personal capacity, not as the ESC Chair, and, alone, am responsible for all shortcomings and errors.

<sup>1</sup> The position of Brunei on this ECOTECH matter was contained in its major document called 'Human Capacity Building in APEC: Meeting the Needs of the 21<sup>st</sup> Century' which came out in September 2000.

a very large meeting in Beijing in mid-May 2001 called the High-Level Policy Meeting on Human Capacity Building where policy makers and high-ranking officials in member economies, business and community leaders, and educators throughout the APEC region were invited to show their visions on how to build human capacity in APEC member economies and exchange their views on this important ECOTECH matter. Even the meeting of APEC Trade Minister in June this year in Shanghai, progress on ECOTECH initiatives was one of the main items in the agenda discussed at the meeting.

Why is there so much interest in ECOTECH recently? Perhaps the failure of major trading nations of the world, particularly in North America and Europe, to agree on the launch of a new round of multilateral trading negotiations in Seattle in late 1999 was one of the reasons for the setback in trade liberalisation, which, relatively speaking, gave added importance to ECOTECH matters. Others have argued that the increased movements towards bilateral free trade agreements (FTAs) among APEC members in the last two years have also given rise to the ECOTECH element of APEC at the expense of the trade and investment liberalisation element of APEC. While the above reasons are not entirely valid or accurate, they have helped strengthen the posture of ECOTECH in APEC. More important reasons probably lie in the fact that there are actually several real attempts both by the official APEC and those who are outside but are associated with APEC to initiate several changes in the ways APEC has set and operated its ECOTECH agenda. The pertinent question to be asked is: Is this true? If it is, then, what is happening with ECOTECH in APEC at the moment represents a new beginning for ECOTECH in the APEC process. If not, then, what has happened is a transient phenomenon, something like the Flavour of the Month that will lose public appeal after a while.

The main purpose of this paper, therefore, is to investigate the current status of ECOTECH in APEC, to see whether the changes that have already taken place in the last two years represent a new beginning for ECOTECH in APEC or whether they are simply an old agenda



being given a facelift. The paper will be divided into 5 sections. After this Introduction Section, Section 2 briefly discusses the origin ECOTECH in the APEC process, and looks at the current ECOTECH agenda in APEC with emphasis on its structure, outcomes and problems associated with its implementation. Section 3 analyses plans for the re-organisation of ECOTECH operations in APEC. Section 4 considers three specific areas that promise a new beginning for ECOTECH in APEC: The Updating of Part 2 of the Osaka Action Agenda, the preparation of the Human Capacity Building Strategy Report, and the establishment of the Individual Action Plan on ECOTECH or ECOTECH-IAP. Section 5 gives a concluding remark.

## **2. Origin, Structure and Problems of ECOTECH in the APEC Process**

By now the story on the origin of APEC is so well known as to obviate any need to repeat it here. But the same thing cannot be said about the origin of ECOTECH component in APEC. Although it is true that several working groups were created at the same time as the creation of APEC with its main emphasis on trade and investment liberalisation and facilitation, we could not say that these working groups were set up to directly promote economic and technical cooperation among members. The earliest time that the idea of economic and technical cooperation element in the way we understand it today was suggested to be included in APEC alongside trade and investment liberalisation and facilitation was at the Ministerial and Leaders' meetings in Indonesia in 1994 when Indonesia, the host for APEC Summit that year, made it clear that trade and investment liberalisation and facilitation be accompanied by 'development cooperation' aimed at developing capacity in the developing economies to be able to take part in the liberalisation process. The term 'development cooperation' was later changed to 'economic and technical cooperation' or ECOTECH to make sure that APEC would not turn into another forum for developmental aid.

The clearest sign of the birth of ECOTECH was when Japan announced its Osaka Action Agenda (OAA) during its 1995 APEC Summit. In Part 2 of this historic document, the subject of economic and technical cooperation was clearly discussed, and the action plans laid out. According to this Part 2 of the OAA, the three basic principles of ECOTECH development for APEC economies will be as follows:

- (a) APEC economies "...pursue economic and technical cooperation in order to attain sustainable growth and equitable development..., while reducing economic disparities among APEC economies and improving economic and social well-being". It was expected that such efforts would also facilitate the growth of trade and investment in the region.
- (b) APEC economies "...conduct economic and technical cooperation on the basis of the principles of mutual respect and equality, mutual benefit and assistance, constructive and genuine partnership and consensus building". And,
- (c) In pursuing the above objectives, APEC economies will develop an environment favourable to the effective operation of market mechanisms and integrate into the cooperation process the business/private sector as well as involve wherever possible other pertinent institutions".

Thirteen specific areas were listed in this Part 2 of the OAA where Common Policy Concepts, Joint Activities, and Policy Dialogue were the three essential elements to be taken into account.<sup>2</sup> These 13 specific areas for economic and technical cooperation include (1) human resource development; (2) industrial science and technology; (3) small

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<sup>2</sup> A Common Policy Concept requires a setting up of goals, basic principles and priorities in each specific area of APEC economic and technical cooperation. A Joint Activity would call for compilation and sharing of data and information, surveys, training, seminars, research and technical demonstrations. Finally, a Policy Dialogue on economic issues pertaining to these 13 specific areas of interest will be conducted.

and medium enterprises; (4) economic infrastructure; (5) energy, (6) transportation; (7) telecommunications and information; (8) tourism; (9) trade and investment data; (10) trade promotion; (11) marine resource conservation, (12) fisheries; and (13) agricultural technology.

In 1996 Philippines was the host for that year's APEC Summit. ECOTECH got further refinement from APEC leaders. The Manila Declaration on an Asia Pacific Cooperation Framework for Strengthening Economic Cooperation and Development identified 6 priority areas of ECOTECH, namely:

- Development of human capital;
- Development of stable, safe and efficient capital markets;
- Strengthening of economic infrastructure;
- Harnessing of technologies for the future;
- Safeguarding of the quality of life through environmentally sound growth; and
- Development and strengthening of the dynamism of small and medium enterprises.

Together, this Manila Declaration and the 1995 OAA have become the guiding principles of how ECOTECH agenda would be set in APEC. Note that while priority areas were set and plan of action suggested, these ECOTECH activities were left for all economies and existing APEC working groups and other fora to handle by themselves. Whereas the coordination of the work on trade and investment liberalisation and facilitation was being undertaken by the Committee on Trade and Investment (CTI), there was no similar organisation or administrative institution to take care of ECOTECH matters. This gave rise to a debate in the following year, in Canada, which played host to the 1997 APEC Summit. Some major developed economies members objected to the creation of this special administrative unit to coordinate the ECOTECH work, saying that such creation might dilute the importance of TILF which was the primary objectives of APEC and might turn APEC into

a mutual aid-giving and aid-receiving organisation, while some major developing economies members insisted that a special administrative unit to coordinate ECOTECH activities was needed as the main issue was economic and technical cooperation, not aid-related developmental activities. In the end, a compromise was reached whereby this administrative unit to coordinate ECOTECH activities was set up, not as a committee like the CTI or the Economic Committee (EC), but as a sub-committee attached to SOM and to be officially known as the SOM Subcommittee on ECOTECH or ESC for short. As this strange creature works with, and reports to SOM directly, it has the same status as the CTI or the EC, except that it normally does not report to APEC Minister Meeting (AMM) like the other two committees.

So, the ESC came to life in 1998 when Malaysia hosted the 1998 APEC Summit. The ESC is headed by a chair who is selected from nomination from member economies for a term of two years. Members of the ESC can be senior officials of APEC member economies themselves, or they can designate their representatives to participate in the ECS meetings which take place at the same time as the SOM meetings (either before or after the SOM meetings). Apart from serving at the instruction (and pleasure) of the SOM, the ESC has no oversight authority over any other APEC fora, except one subgroup called Group on Economic Infrastructure (GEI).<sup>3</sup> The APEC Secretariat now assigns one senior officer to work with the ESC Chair, while the ESC Chair usually has his or her own special assistant at his or her home base to help in his or her work. In 1999, the post of Vice Chair was created but the sharing role between the ESC Chair and Vice Chair is still not clearly defined although it is assumed that the Vice Chair may be asked to perform the duties of the Chair if and when necessary.

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<sup>3</sup> The former name of this subgroup was Infrastructure Workshop (IWS) and was part of the Economic Committee (EC). In 1999, it was moved from the EC to the ESC for better working arrangements. In 2000, the IWS requested the ESC and SOM to change its name to GEI, which the ESC and finally SOM approved.

Now with this ESC, ECOTECH agenda is what this ESC does. In the Term of Reference of the ESC, it is tasked to assist the SOM in coordinating and managing APEC's ECOTECH agenda, and in identifying value-added initiatives for cooperative action. The ESC seeks to advance effective implementation of Part II of the 1995 Osaka Action Agenda and the 1996 Manila Framework for Strengthening Economic Cooperation and Development through consultation with APEC fora and the development of policy management tools and guidelines for projects. During 1999 and 2000, the ESC has succeeded in completing the following tasks:<sup>4</sup>

- examined and reported on the 220 ECOTECH projects that were on-going or completed in 2000 with assistance from the APEC Secretariat;
- evaluated completed HRD ECOTECH projects;
- reviewed the implementation of Part II of the Osaka Action Agenda;
- monitored and reported on the implementation of projects/activities that flowed from the Kuala Lumpur Action Programme on Skills Development and the APEC Agenda for Science and Technology Industry Cooperation into the 21<sup>st</sup> Century endorsed by APEC Leaders in Kuala Lumpur, Malaysia in 1999;
- established a system of focal points (coordinators) to review progress in the implementation of the six priority ECOTECH themes under the 1996 Manila Declaration. In 2000, the ESC reported on the themes relating to Capital Markets, Economic Infrastructure and Sustainable Development;
- reported on the implementation by APEC fora of its Guidance on Strengthening Management of APEC ECOTECH Activities;

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<sup>4</sup> This information is obtained from the website of the APEC Secretariat based in Singapore. See, <http://www.apecsec.org.sg>

- proposed refinements to the ECOTECH Weightings Matrix, that was designed to provide APEC fora with a better appreciation of the overall ECOTECH priorities, including desired project outcomes; and
- launched the ECOTECH Clearing House ( <http://www.apec-ecotech.org> )- a website that indexes all relevant information on APEC ECOTECH activities. The Clearing House also facilitates the exchange of information between potential partners in ECOTECH activity, in particular the identification of ECOTECH requirements and the capacity to provide appropriate expertise to meet those needs.

Through the eyes of the general public, the above achievements look quite impressive. And imagine that all these activities were carried out on voluntary basis by the personnel of the economies involved, plus the work of officers at the APEC Secretariat Office in Singapore who are themselves officials from APEC economies on temporary secondment from their home offices. It is undeniable, therefore, that the cooperative spirit is still very strong within APEC members, and this spirit keeps reinforcing itself through frequent meetings among these APEC officials throughout the year, creating what could be called ‘peer pressure’ to keep up the good work. However, it is undeniable also that the work of the ESC and other related economies on ECOTECH activities is not without problems. There are several sources of information already available which analyse and comment on the problems of ECOTECH activities in APEC.<sup>5</sup> It suffices to briefly mention some of the problems here.

#### **(a) Lack of Resources**

APEC has intentionally maintained a very small secretariat to save costs, but then the professional staff of the APEC Secretariat can

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<sup>5</sup> See, for example, APIAN (2000); Medhi (2000b); FDC (2000); and FDC (2001)

do no more than just keep and publish records of the meetings, facilitate various meetings of APEC fora, and follow up on the tasks assigned by senior officials, ministers or leaders. They do not have time or the orientation to do serious analysis of specific issues such as the appropriateness of a certain initiative, or the effectiveness of a certain project. Some economies which volunteer to perform certain tasks face the same lack of resources. The post of ESC Chair which will be rotated among APEC members will depend on the financial support of the government to which he or she belongs, which can seriously hamper his or her work if these resources are lacking. Some economies did provide financial assistance to the operations of various APEC activities, but there are inequalities of treatments among these activities. For example, the Japanese government provides up to 500 million yen annually to promote research and activities on TILF projects but does not allow this money to be used for ECOTECH projects.

**(b) Lack of Authority**

Although the ESC is the only subcommittee that SOM has created to work directly under it, SOM does not give much power or authority to its subcommittee. The ESC Chair or his representative has no rights to participate in any meetings of the working groups or APEC committees or subcommittees unless invited, even though those meetings are about economic and technical cooperation, and one of the duties of the ESC is to coordinate the operations or outcomes of those activities. Perhaps this is the standard etiquette and practice within APEC when members are very sensitive to one another regarding interference in their own internal affairs. But this can lead to inefficiency or ineffectiveness of policy decisions. To give one concrete example: the ESC has designed the so-called ECOTECH Weighting Matrix as a tool for members or APEC fora to rank their projects submitted for the APEC Central Fund using points system. But these points are given by the proposers themselves, not by outside evaluators, and they are to be assessed and evaluated by the fund manager, the Budget and Management Committee (BMC) without any participation from the designer of this Matrix, the ESC.

### **(c) Lack of Technical Capability**

But even if the ESC is to be given an opportunity to assess or evaluate these projects, it is doubtful whether members of the subcommittee would be qualified to do the job well. The lack of technical capability of the ESC to do this assessment and evaluation of the APEC proposals and project outcomes was evident in the ESC attempt to evaluate the completed human resources development (HRD) projects in 1999. The assessment was done by individual economies (self assessment), and the results were so varied that no meaningful conclusions could be made out of this exercise. The ESC was forced to ask the permission of SOM to engage outside experts to do this assessment and evaluation job for it.<sup>6</sup>

### **(d) Too Diverse ECOTECH Activities**

There are several parties or bodies that can generate ECOTECH work programs for the ESC. Economic leaders are of course the supreme source of initiatives that will be filtered down to the ESC to do or to coordinate or evaluate. Then came the decisions or initiatives of various ministers, senior officials, other committees, or various working groups. As can be seen from Box 1, the APEC Secretariat has currently listed 19 initiatives that fall under ECOTECH activities. Not all of these activities are equal in size and significance, but no one knows how to rank them. They may have neither a definite beginning nor a definite ending. So, there is a tendency for some activities to bunch up and divert attention from more important activities. A good case in point is the APEC Food System Initiative which was conceived in 1999. In 2001, it is still unclear how this could be handled in the ESC. Apart from these initiatives, various working groups also have their own agenda and interest to pursue their own activities. Many of these activities are of course of ECOTECH nature, but few would know what have taken place

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<sup>6</sup> Although the permission was granted in principle, the actual engagement of outside experts for this assessment may still take some time as some members are still reluctant to allow their projects to be assessed or evaluated by outsiders.



at each working group. The line of communications between working groups and the APEC process at large is very thin. The lead shepherds of all working groups are required to meet with SOM only once a year (normally at SOM1), at a meeting that lasts only a few hours. There is no way that the ESC could coordinate the ECOTECH agenda emanating from all working groups at present.

**(e) Lack of Cooperation and Support from Within and Outside**

While APEC senior officials should be commended for their hard work and devotion to the ideal principles of APEC (and part of this could be explained by the camaraderie that they maintain throughout their APEC assignments), the same thing cannot be said with respect to officials in other ministers, or ministers in other ministries, or the economic leaders themselves. But fortunately, however, in most economies, these APEC senior officials are influential and could sway or pull the attention of ministers or leaders to the common causes of APEC. But outside the official circle, APEC still suffers from the lack of support from the business and private sectors, the academic community, the non-governmental organisations, and the civil society at large. Without the support of all these non-official circles, the success of APEC in the domestic economy will be difficult. Not only that these non-official organizations should be informed of what APEC is doing, they may have to be invited to participate more in the decision making and the operation of APEC policies.

### **3. Plans for the Re-organisation of the ECOTECH Agenda**

The above problems would be obvious to anyone who has a chance to participate in the APEC process and engage in its activities. As far as the ECOTECH activities are concerned, the ESC has been trying to do some re-organisation of the ECOTECH agenda and its ensuing activities. There are three areas of activities that define ECOTECH agenda: coordination of ECOTECH activities through the outcomes of

various ECOTECH projects, including their assessments and evaluation; dissemination of these results to other organisations both in public as well as private sectors; and participation in activities that many outside the official APEC circles are involved. Under this broad framework, the re-organisation plans are now taking shape.<sup>7</sup>

### **(a) Plans for Better Coordination**

As mentioned in the Term of Reference, a major function of the ESC is to help SOM coordinate ECOTECH projects in APEC. By coordination is meant both the compilation of all ECOTECH projects in APEC and the evaluation of these projects. On the compilation part, the ESC in 2000 supported the New Zealand initiative to sponsor an effort to compile and index all ECOTECH projects undertaken by all APEC working groups and fora during the last 5 years and organize it in a web-based database system. This project was completed in late 2000 and the outcome, the ECOTECH Clearing House Facilities System, was launched by the Economic Ministers in Brunei in November 2000. As this ECOTECH Clearing House is a 'live' system, meaning that new information will be regularly added to the basic structure, it should provide an up-to-date information on all ECOTECH projects, past and present.

The evaluation of the finished ECOTECH project is more difficult. As mentioned earlier, self-assessment of the completed projects by responsible economies does not work, and some outside experts are needed to conduct this evaluation. In 2000, the APEC International Assessment Network or APIAN, a consortium of scholars from APEC Study Centers throughout the APEC region, was asked to participate in the meeting of the ESC to explain to ESC members the work that they were then doing. This was done with a possibility that APIAN may be

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<sup>7</sup> It should be mentioned that there is no such thing as a physical 'Reorganisation Plan'. The plans described here are my own initiatives to improve the functioning of the ESC on its ECOTECH agenda. Only those plans receiving support (or at least acquiescence) of ESC members were mentioned here.

invited to act as an external assessor and evaluator of the ECOTECH projects. In November 2000, APIAN succeeded in completing its first policy report on APEC with relevant sections on the evaluation of the performance of APEC in various areas (including ECOTECH areas).<sup>8</sup>

### **(b) Plans for Better Dissemination**

That APEC is run mainly by government officials is not to be disputed, but because the government needs the support of the people to survive, what the government officials have done in APEC must also be supported by the people at large. First, the public at large must be constantly or regularly informed of what happened in APEC. Second, they should be provided with an avenue or opportunity to take part in decision making concerning policies that will affect their lives, or opportunity to express their views or opinions on APEC issues. This is an important policy that the ESC has put a great deal of efforts into. It has succeeded in getting the attention of SOM through its repeated reports and reference to the importance of this dissemination or outreach aspect of APEC. Picking up on SOM's directives, the Public Affairs Division of the APEC Secretariat has recently launched a project to create a better outreach activity for APEC. A private media consultant firm (Ogilvy) has been contracted to help the APEC Secretariat to carry out this public relations policy with an aim to inform as well as to enlist popular support from among the APEC communities.

### **(c) Plans for Better Participation**

Coordination and dissemination are part of the activities that fall into what is known as Type I of ECOTECH function or activities. This is a narrow function of ECOTECH in APEC. It concerns with what

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<sup>8</sup> Since APIAN did not have the opportunity to explain the outcome of its study at the APEC Ministerial Meeting in Brunei in 2000 (although APEC Ministers were presented with copied of this Report), the ESC has decided to invited the Coordinator of APIAN (Professor Richard Feinberg of the University of California at San Diego) to explain APIAN Report to the Second ESC Meeting in Shenzhen in May 2001.

government agencies within APEC have carried out among themselves. The ESC has recently argued that APEC, especially ECOTECH, can no longer confine itself to this Type I of activities. On the contrary, APEC has to reach out, to participate in others' activities, or invite or encourage other individuals, institutions, or organisations to participate in APEC activities. These broad function of ECOTECH which involves people outside the official APEC circles is called Type II of ECOTECH function or activities. This does not mean that APEC has never engaged people outside the official APEC circles. In fact one of the strongest support of APEC from the business sector in APEC is from the APEC Business Advisory Council (ABAC). But even in this case, there is still room for improvement.<sup>9</sup> Other organisations that have been associated with APEC within this category of Type II function of ECOTECH include the Pacific Trade and Development Conference (PAFTAD), the Pacific Economic Cooperation Council (PECC), the Foundation for Development Cooperation (FDC), the Pacific Basin Economic Council (PBEC), and the APEC Study Center Consortium.<sup>10</sup>

#### **4. Specific Examples of New ECOTECH Activities**

In light of the plans to improve various aspects of ECOTECH activities referred to above, there are several activities currently being undertaken by member economies under the aegis of the ESC. Some of these activities clearly show new innovations in the areas of ECOTECH which could be looked upon as a new beginning for ECOTECH in APEC. Three of these new activities could be described as follows.

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<sup>9</sup> It may be observed that each year ABAC will come out with a list of advice for APEC, but in the past several years we have yet to see a joint project or activity between the government agencies of APEC with the private sector of ABAC, especially in the ECOTECH areas. See a plea for this closer relations between the ESC and ABAC in Medhi (2000a).

<sup>10</sup> For more detail on how these organisations have become involved in APEC, see Medhi (2000b).

### **(a) The Updating of the OAA Part 2.**

Earlier on we have alluded to the fact that the APEC Summit in 1995 had produced one of the most important documents that set the course of action for APEC towards the realisation of free trade and investment in the Asia Pacific region in the year 2010 and 2020: The Osaka Action Agenda. Part 1 of this OAA deals with TILF matters, whereas Part 2 deals with ECOTECH. The OAA also contains an annex which discusses action programs in specific areas, and these areas usually coincide with the main focus of each working group in APEC.

In 2000, four years after the announcement of this Action Agenda, SOM had asked the ESC to review the implementation of ECOTECH activities under this Part 2 of the OAA. The result of the review has shown that many of these programs had been implemented or accomplished. According to Jaroenjit Pothong (Jaroenjit, 2001) who studied the outcome of the four years of implementation of this OAA Part 2 in some detail, she classified the main substance of the OAA Part 2 into two categories. One is the short-term activities which aim at eliminating the technical barriers to trade in order to facilitate free trade and investment, and the other is the long-term activities which aim at enhancing capacity building necessary for members to achieve sustainable development. She found that essential achievements were found in short-term activities aiming at the elimination of the technical barriers to trade. Best practices and mutual recognition agreements across wide areas of trade and investment such as in telecommunications, transportation, marine resource conservation, and fisheries, were developed. Also database and network to promote information sharing were established.<sup>11</sup> As for the long-term capacity building activities, she found that it was more difficult to assess the achievements. However, she was of opinion that best practices and mutual recognition could be important elements in the capacity building activities.<sup>12</sup>

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<sup>11</sup> And this is one of the reasons why the Trade and Investment Database Working Group was disbanded in 1999.

<sup>12</sup> Jaroenjit Pothong is Special Assistant to the ESC Chair.

Based on the result of this review of the 1995 OAA Part 2, APEC Ministers at their meeting in Brunei in November 2000, instructed the ESC in 2001 to ‘develop further the Joint Activities/Dialogue sections of the OAA guidelines’. The ESC, therefore, will be updating the text of relevant sections of the OAA Part 2 and its Annex, with a view to removing those activities that have been accomplished and incorporating new activities that have been endorsed by Ministers and Leaders since 1995.<sup>13</sup> On the surface, this may look like a revision of an old agenda. But indeed there are several new features that make this updating activity a new beginning in the ESC. For the first time in the history of APEC members of the ESC and the working groups have been brought together in a working relationship, as member economies were asked to volunteer to liaise with the working groups or APEC fora in their reviewing and updating of those ECOTECH activities in the OAA Part 2.<sup>14</sup> Moreover, the extensive participation of all APEC fora on this endeavour should guarantee that the outcome of the updating will be very important and useful for the ECOTECH activities for many years to come.

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<sup>13</sup>In the beginning, there was some doubts and apprehension from some members as to how relevant APEC fora could carry out these assignments. Some would like to regard this OAA Part 2 as a historical document that should not be altered; some would see it as a living document which must change with the time. Eventually a compromise was reached that only the Joint Activities/Dialogue component of Section B is to be reviewed (for the purpose of updating it); the rest of the document will remain unchanged. In the Annex, each forum will have to determine what amendments should be made, taking into consideration its annual or longer term work program and priorities. However, the Goals and Basic Principles in the Common Policy Concepts section would not be changed.

<sup>14</sup>Again there is a great deal of sensitivities involved in this move by the ESC. As the Working Groups have been working independently by themselves from the beginning, any attempts to get involved in their work could be construed as an intrusion or interference. The ESC was at pain to explain to the Working Groups that this was not an intrusion but an opportunity to work together. The word used is for the ESC members to ‘latch on’ to the work of the Working Groups.

### **(b) Human Capacity Building Efforts**

If there is any single topic that has received the greatest attention from anyone in any forum that talk about ECOTECH in APEC that topic is human capacity building. Actually, this is not at all a new phenomenon. Human Resources Development (HRD) was identified by Ministers when they first met in 1989 to be part of future regional cooperation, and the interest in this topic has been high since then. The interest in HRD is also manifested in the frequency of meetings of the HRD Working Group as well as the number of projects undertaken by economies and APEC fora during the past 5 years.<sup>15</sup> In the Malaysian year of APEC Summit in 1998, Malaysia tried to set up human resources development as the main theme for that year's Summit and indeed was able to come up with the Kuala Lumpur Action Program on Skill Development. But it was unfortunate that East Asia was deep in economic crisis that year, causing this economic bad news to overshadow this new APEC resolve. In 1999, the focus in the New Zealand year of APEC Summit was shifted to trade liberalisation with strong emphasis on competition and market strengthening policies, but in 2000 in Brunei, the focus was shifted back to human resources development again. In China this year, the theme is somewhat broad, but there is little doubt if one looks closely at the preparation of China toward the year-end Summit that China takes ECOTECH in general, and human capacity building in particular, very seriously.<sup>16</sup> In cooperation with Brunei, China had just finished organizing the High-Level Policy Meeting on Human Capacity Building (HLP-HCB) meeting in Beijing during May 15-16, 2001 where more

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<sup>15</sup> In 2000, the APEC Secretariat conducted a survey of how all the ECOTECH projects could be classified among the six priority themes of ECOTECH. It was found that 70 out of 220 projects or about one-thirds fell under the category of developing human capital. The rest spread around the other five themes. See APEC Secretariat (2000c).

<sup>16</sup> The main theme of the 2001 APEC Summit in China is 'Meeting New Challenges in the New Century: Achieving Common Prosperity through Participation and Cooperation', with 3 sub-themes consisting of (1) sharing the benefits of globalisation and the New Economy; (2) advancing trade and investment; and (3) promoting sustained economic growth.

than 500 government leaders, top business executives, educators, and representatives from non-government and international organisations specializing in human resources development attended. This HLP-HCB meeting has produced the Beijing Initiative on APEC Human Capacity Building which sets a framework for future development of human capacity in APEC in the years to come.

It should be mentioned also that, in a separate effort, the Chinese Academy of Social Sciences under the leadership of Professor Zhang Yunling, in cooperation with Professor Peter Drysdale of the Australian National University has completed a study on China's APEC agenda for this Summit year in Shanghai (see Zhang and Drysdale, 2001). In the part that is related to ECOTECH, Zhang and Drysdale clearly stated that APEC's capacity building strategy needs to be sharpened in two fundamental ways: (1) the vast list of ideas needs to be reviewed and reduced to a more manageable set of coherent programs, and (2) a few capacity building activities that have been found to be successful on a small scale be implemented on a larger scale. They suggested that the ESC begin to review the large range of activities underway or under consideration. According to Zhang and Drysdale, to be effective, the review process must be able to devise a SMART program to do it. This is the program that must be Strategic (S), Measurable (M), Achievable (A), Realistic (R), and Time-bound (T).

As for the ESC, which was at the center of all these new changes, it has been given a completely new role to play. The APEC Ministers during their meeting in Brunei in November 2000 stated that the emergence of the New Economy had created a new dimension for human capacity building. So, in this regard, they had tasked the ESC to prepare a human capacity building strategy that would define the objectives, priorities and principles for APEC to respond to the challenges of the new environment. A special coordinating group of HRD representatives led by the ESC was established during SOM1 in China in February 2001 to prepare annually a Report on Human Capacity Building in APEC. Due to the broadness of areas that human capacity building could be



relevant, the ESC has requested to SOM to limit its attention to human capacity building in the New Economy at the start, to be able to expand to other areas as it becomes more experienced. The first Report of Human Capacity Building in APEC on the New Economy is expected at the end of 2001.<sup>17</sup>

### **(c) Individual Action Plans of ECOTECH (ECOTECH-IAP)**

So far, it could be argued that ECOTECH has made an inroad into the thinking of many people as to its promising role in bringing about a faster realisation of freer trade and investment in the Asia Pacific region, and also more sustainable development among less developed APEC members. In its latest, and probably most exciting development to date, APEC Ministers in their 12<sup>th</sup> meeting in Brunei in November 2000, had reaffirmed the importance of ECOTECH in achieving the Bogor goals of free trade and investment in the APEC region by 2010 and 2020, and as a means to a more focused and intensified action agenda, had instructed APEC officials to consider the possibility of establishing individual action plans or IAPs on ECOTECH.<sup>18</sup>

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<sup>17</sup>One of the first activities under this new task of the ESC is to agree on some common definition of the New Economy. Apart from the definition by Dr. Catherine L. Mann of the Institute of International Economics, who volunteers her study to help the Economic Committee on its work on the New Economy, several economies have also expressed their views on the definition of the New Economy. It is expected that the meeting of the Human Capacity Building Coordinating Group (HCBCG) during SOM2 in Shenzhen will agree on the definition which will set the framework upon which a strategy for human capacity building could be built.

<sup>18</sup>It was reported that this idea of the ECOTECH-IAP which was the basis for the Ministerial agreement in 2000 came from Mr. Kono Yohei, then Foreign Minister of Japan. Although many people have mentioned about IAP on ECOTECH before—I myself mentioned about this during SOM2 in Brunei in May 2000, and Andrew Elek also wrote about this in his paper in October 2000 (Elek, 2000), Mr. Kono should be give full credits for successfully pushing forward this innovative idea among his ministerial colleagues. It should be noted also that it was the same Mr. Kono who, as the Japanese Foreign Minister in another government, also proposed the idea of the Partnership for Progress (PPF) in 1995 in Osaka which became one of the earliest models of ECOTECH activities that are qualified to be called an ECOTECH-IAP in the present discussion.

To understand this new concept of ECOTECH-IAP one must start with the older and more established concept of TILF-IAP. Part 1 of the OAA had recommended that each APEC member initiate individual action plans for its own trade and investment liberalisation with the year 2010 or 2020 in the horizon. The first TILF-IAP format was developed by the CTI in 1996, then one after another, members were able to construct their own TILF-IAPs in subsequent years. A typical IAP would consist of a summary cover sheet which gives a summary of specific changes against the last version of the IAP, a summary in matrix form detailing actions for the short term, the medium term, and the long term for each TILF issue specified in the OAA, and a narrative bullet-points summarising the highlights of the IAP, heading statements, and detailed statements. Members will take turn offering their IAPs to be reviewed by their peers which take place regularly during SOM. Despite a report by a group of researchers that the progress of these IAPs among all APEC members were slow and uneven, the TILF-IAP concept remains one of the most progressive examples of concerted unilateral efforts at trade and investment liberalisation. At least the concept of IAP has become so well known that it is often used to show the uniqueness of APEC's voluntarism. In other words, IAP has assumed a special meaning that goes beyond the pure factual details of what have been included in the matrix of tariff and non-tariff changes. The TILF-IAP has reflected the individual, unilateral, commitments of APEC members towards free trade. It is this type of meaning that the word IAP is to be better understood.

The situation that leads to the proposal for an IAP on ECOTECH could be traced to a new thinking on the role of ECOTECH in APEC. ECOTECH now means more than just modality of preparation for free trade and investment, it also means a separate, stand-alone, endeavour to develop each individual economy into a self-sustaining and economically sustainable entity. A new way of thinking has replaced the narrow, self-serving view of free-trade-at-all-costs. Free trade should bring in mutual net benefits, not the gain to one and the loss to the other. So, to

help these economies to attain the level of development that trade and investment with one another will begin to produce mutual net benefits is part and parcel of the new thinking on the meaning of ECOTECH.

Therefore, an individual action plan on ECOTECH can be looked upon as a commitment by APEC members to achieve either one of the two or both ECOTECH goals mentioned above. As these two goals will converge in the end, there is no conflict if one is achieved ahead of the other.<sup>19</sup> But it could be argued, however, that ECOTECH can be very wide, encompassing a large area of economic and other social activities. What parts or aspects of ECOTECH should members be involved in in their individual plan of action? Taking note of the existing system of activities being undertaken by various working groups under APEC, these activities could be adopted as chosen activities under ECOTECH-IAPs. Or to make the whole process more manageable and more focused, only one or two major ECOTECH activities may be selected first, with other activities to be added or included later on. A good candidate for the first activity to be selected is of course human resources development or human capacity building as this is a well-recognised area that can bring about desired growth and development in any economy.<sup>20</sup> But this should not limit the choice and selection of any economy which finds a more appropriate activity in other areas.

Another way of looking at the true meaning of ECOTECH-IAP is to consider this new APEC activity as the missing link that will complete the whole circle of the APEC process. As things stand at the moment, only TILF has its individual action plans and collective action plans (CAPs),

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<sup>19</sup>This is a matter of domestic politics and strategies rather than international relations matters. Some economies may opt for free trade first and use the change brought about by free trade to mount domestic policy changes that will bring faster and more sustainable growth later. Other economies may do the opposite, that is to develop local economy first before open up more fully.

<sup>20</sup>This was indeed the position taken by Singapore in its proposal to prepare a prototype of an ECOTECH-IAP on human resources development for members to consider for adoption. This position and proposal has received wide support among APEC member economies in the meeting.

and as pointed out earlier, these activities were explicitly mentioned in the OAA Part I, whereas no equivalent actions were given on ECOTECH in the OAA Part II. As Japan, one of the proponents of ECOTECH-IAP, put it, while this OAA Part II has suggested a variety of ECOTECH measures to be undertaken by member economies, their implementations have not been followed seriously by member economies. In this respect, Japan has proposed that APEC be equipped with another separate engine to promote ECOTECH activities, that is to say, while all members, on the one hand, collectively implement the decisions made by leaders and ministers concerning ECOTECH, each member is, on the other hand, expected voluntarily to take such individual actions as listed in the OAA Part II.

Despite the enthusiasm of the proponents of this ECOTECH-IAP, this concept is not without its sceptics. The followings are some of the reservations on the idea of ECOTECH-IAP expressed by some APEC economies:

- There is no added value in an ECOTECH-IAP
- ECOTECH-IAP idea and concept overlaps with the already existed ECOTECH Clearing House Facilities
- The ECOTECH-IAP outcome, unlike TILF-IAP outcome, is non-quantifiable
- ECOTECH is a collective activity; it is possible to do this alone or unilaterally
- ECOTECH-IAP is an ODA program in disguise
- The word IAP causes confusion because it belongs to TILF area

This is not the place to debate the truths or falsities about the above questions or reservations on ECOTECH-IAP.<sup>21</sup> Suffice it to say that

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<sup>21</sup> For detailed discussion on how these questions or reservations are answered see, for example, Medhi (2001).

proponents of this ECOTECH-IAP have successfully explained the true nature of ECOTECH-IAP to its critics, so that some kind of prototype of ECOTECH-IAP could be forthcoming at the end of the year. It is possible that this ECOTECH-IAP prototype could be one of the deliverables that the APEC Leaders will announce in Shanghai in October this year.

## **5. Summary and Concluding Remark**

In this paper I have discussed the origin of economic and technical cooperation in the APEC process, the organisational structure and the problems involved in the conduct of ECOTECH agenda in APEC. I am of opinion that ECOTECH elements in APEC have become much more important nowadays due to the fact that the level of economic development of some APEC members must be raised so that all members could and would be able to engage in freer trade and investment with one another. And ECOTECH could help members attain that through the process of human resources development, human capacity building, and other forms of economic and technical cooperation. And in keeping with the prospects of greater importance of ECOTECH in APEC, several new initiatives have been made, and new procedures have been installed, to make a new beginning in ECOTECH agenda. We have seen plans for better coordination, dissemination, and participation in ECOTECH, with the decisions to update Part 2 of the OAA, to start working on Human Capacity Building Strategy, and to consider establishing the individual action plans on ECOTECH (ECOTECH-IAP) as three of the most initiatives for ECOTECH this year.

ECOTECH component in APEC is often referred to as the third leg or third pillar of APEC, the other two pillars being trade and investment liberalisation, and trade and investment facilitation. At other times, ECOTECH is also referred to as the heart of APEC without which the life of APEC cannot be sustained. Recently a new metaphor for ECOTECH in APEC has been devised. ECOTECH is now seen as the second

wheel of a bicycle that, together with the first wheel of TILF, enables a bicycle to move forward.<sup>22</sup> This is an interesting change from the old 3-pillar concept of APEC in the sense that the new concept elicits the sense of forward movement and balance, in contrast to something that stays put. This new analogy also gives greater importance to ECOTECH in comparison to TILF. Indeed, it could be construed that ECOTECH is the rear wheel of a bicycle, and all bicycles are rear-wheel drive!

Another separate development concerning APEC that in fact can be seen as a boost to the posture of ECOTECH is the advent and proliferation of bilateral free trade agreements (FTAs). To some, this poses a threat to the cohesion of APEC in its trade liberalisation efforts. To others, this does not. For those who dismiss this FTAs as a threat to APEC usually believe in the dual system where bilateralism and multilateralism can go hand in hand. Indeed, the emergence of these FTAs can enhance the ECOTECH aspects in APEC (and possibly the trade and investment facilitation aspects as well) by default. How? Once the Bogor goals are set and the IAPs on trade and investment liberalisation are in place, the urgency in this aspect will become less (but pushed along concurrently by bilateral or regional FTAs). In its place, ECOTECH will become more important as members are trying get ready for the eventual free trade and investment in the Asia Pacific areas. The disappointment of the failure to launch a new round of multilateral trade negotiations (not the fault of APEC), will be more than made up by the success of this ECOTECH-IAP.

Recently, after the EVSL fiasco and several failures in its push for new rounds of multilateral trading negotiation, as well as the proliferation of bilateral FTAs as mentioned above, Professor Yamazawa Ippei, a well known expert on APEC, asked a critical question: Is APEC dying? (Yamazawa 2001). It should be obvious from the above account

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<sup>22</sup>I heard this for the first time from Mr Wang Guangya, the SOM Chair of China for 2001, in his opening remark at the Policy Dialogue Group Meeting organised by the Foundation for Development Cooperation and the China National Committee of the Pacific Economic Cooperation Council in Beijing on 20 April 2001.

that, not only that APEC is not dying, but it will prosper under the new role of ECOTECH in APEC. The all-out attempt by China this year to promote human capacity building in APEC, a clear ECOTECH objective, will prove this to be true. By then, the question posed by Professor Yamazawa will become irrelevant.

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**Box 1: APEC ECOTECH Initiatives**

Since 1995, APEC leaders and ministers, and other officials in various APEC fora, have initiated several activities under the broad framework of ECOTECH. As of May 2001, the following ECOTECH Initiatives are being implemented by APEC economies, the ESC, and various other fora in APEC.

- Action Agenda for the New Economy
- Agenda for S&T Industry Cooperation into the 21<sup>st</sup> Century
- Asia Pacific Information Infrastructure (APII)
- Beijing Initiative on APEC Human Capacity Building
- Blueprint for Action on Electronic Commerce (e-Commerce)
- Cleaner Production Strategy
- Early Voluntary Sectoral Liberalisation (EVSL)
- Economic Governance Capacity Building Initiative
- Emergency Preparedness
- Integrated Plan of Action for SME Development (SPAN)
- Kuala Lumpur Action Programme on Skills Development
- Manila Declaration on Ecotech
- Mexico Declaration on Science & Technology Cooperation
- Natural Gas Initiative
- Osaka Action Agenda – Part 2 (ECOTECH)
- Partners for Progress
- Sustainability of the Marine Environment
- Sustainable Cities
- Vancouver Framework for Infrastructure Development

**Source:** APEC Secretariat

**Box 2: Chronology of Human Capacity Building Activities in APEC**

1989-1991: Human Resources Development (HRD) was identified by Ministers when they first met in 1989 to be part of future regional cooperation. Early areas for cooperation in HRD included business management, training in industrial technology and education.

1992: First Education Ministerial Meeting (Washington DC, USA): identified need for research into effective instructional practices that meet the needs of the 21<sup>st</sup> Century, including the appropriate and effective use of new technologies for instructional purposes, and widespread dissemination of the results.

1993: In Seattle, Leaders endorsed an Education Program (leading to establishment of APEC Study Centers and APEC Education Foundation) and Business Volunteer Program (volunteer exchange program to promote HRD).

1994: In the Bogor Declaration, Leaders identified HRD as a means to sustain growth and reduce economic disparities among APEC economies. APEC Human Resources Development Framework endorsed by Ministers sets out the goals, principles, and priorities for HRD in APEC.

Goals: promote well-being of region's peoples through economic growth and development by planning, developing and implementing practical and appropriate education and training for present and private sectors (including non-workers).

Priorities: basic education, regional labour market analysis, SMEs, entrepreneurship, lifelong learning, improved education/training materials, skills development opportunities.

1995: Osaka Action Agenda provided template for future APEC work in 13 identified priority areas of economic and technical cooperation, including HRD. The Action Program for Human Resources Development included work on facilitation, mobility of researchers, higher education.

1996: First HRD Ministerial Meeting (Manila, Philippines) endorsed the creation of a Labour Market Information Database and highlighted importance of SMEs, mobility of persons in HRD, services and executive education/development. APEC Framework for Strengthening Economic Cooperation and Development endorsed by Ministers I Manila identified ‘developing human capital’ as one of six priorities for ECOTECH.

1997: Second HRD Ministerial Meeting (Seoul, Korea) highlighted the need for linkages between learning and work, skills development, enhanced labour and management cooperation in HRD. ECOTECH Sub-committee (ESC) was established to coordinate ECOTECH effort across APEC.

1998: ‘Development human capital’ was a priority throughout 1998. Kuala Lumpur Action Program on Skills Development endorsed by Leaders provides for mutually beneficial partnership between public and private/business sector in skills development.

Leaders endorsed the Agenda for Science and Technology Cooperation into the 21<sup>st</sup> Century proposed by China in 1997 which encourages enhanced collaboration and cooperation in S&T within APEC through innovation and sustainable regional S&T networks and partnerships.

1999: Third HRD Ministerial Meeting (USA) endorsed the HRD Plan of Action on labour market policy, social safety nets, work-

place security. Specific action items include mutual recognition of professional skills, labour-management relations, retraining, school-industry linkages.

2000: Second Educational Ministerial Meeting (Singapore) identified four strategic areas in gearing education systems for the 21<sup>st</sup> Century, including IT as a core competency in learning and harnessing its to enhance teaching and life-long learning (other areas relate to quality of teaching and teacher development; sound management practices among education policy-makers and practitioners; and active engagement among APEC economies in education cooperation).

Leaders acknowledged the need for HRD to adapt to the changing and globalising economy, and endorsed the Human Capacity Building initiative to bring in stakeholders into APEC HRD efforts. Components of the Initiative are: (a) APEC High Level Meeting on Human Capacity Building; (b) APEC Strategy on Human Capacity Building; (c) Annual Report on Human Capacity Building.

2001: China as APEC Chair 2001 will jointly host with Brunei a High Level Meeting (HLM) bringing together government/public officials, business people and education/training providers to shape the way forward for HRD/HCB in APEC into the new economy.

Fourth HRD Ministerial Meeting (Kumamoto, Japan, 29-30 September 2001) will focus on the theme 'HRD for both the advancement of society and economy and the sharing of prosperity with people in the context of globalisation.

**Source:** APEC Secretariat



## **6. THE SECOND WHEEL THAT DRIVES APEC: THE CRITICAL ROLE AND MANDATE OF ECOTECH IN APEC\***

**By Medhi Krongkaew \*\***

### **1. Introduction**

A new metaphor has recently been created for APEC. For a long time, the three functions of APEC are said to include the support of (a) trade and investment liberalisation, (b) trade and investment facilitation, and (c) economic and technical cooperation. These three functions have become the ‘Three Pillars’ of APEC, defining its unique existence and activities. In early April 2001, however, a new analogy was made in Beijing that likened the main functions of APEC to two wheels of a bicycle—the front wheel being trade and investment liberalisation and facilitation (TILF), and the rear wheel being the economic and technical cooperation (ECOTECH)<sup>1</sup> Since then this new metaphor has been mentioned in many subsequent APEC-related meetings.<sup>2</sup> It has obviously improved upon the original ‘Three Pillars’ concept of APEC for its dynamic forward movement, and a better sense of balance between

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\* Revised version of the paper presented at the Workshop for the Third APIAN Policy Report: APEC as an Institution, in Merida, Mexico, May 23-25, 2002. Earlier version of this paper was presented at the Symposium of Perspectives of APEC 2002, organised by the Ministry of the Economy, Government of Mexico in Mexico City, November 21-22, 2001

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<sup>1</sup> Such analogy was made by Mr. Wang Guangya, the 2001 Chair of the Senior Official Meeting (SOM) in his opening remark at the Policy Dialogue Meeting on ECOTECH organised jointly by the Foundation for Development Cooperation (FDC) and the Chinese National Committee for PECC in Beijing on April 19, 2001.

<sup>2</sup> For example, it was discussed in both the second and third meetings of the Economic and Technical Cooperation Subcommittee (ESC) in 2001. See, 2001 ECOTECH Report.

trade and investment liberalisation and facilitation, and economic and technical cooperation.

However, while this development can be seen as part of the efforts to enhance the status of ECOTECH in APEC, there are many more developments that are required to truly push ECOTECH onto a higher ground of official and popular recognition in APEC. In this short paper, I would like to discuss some of these developments or changes that are required. But before I come to that point, Section 2 of this paper deals with past achievements of APEC on its ECOTECH matters and the reasons behind these achievements. Section 3 discusses forthcoming changes and expectations that may give the APEC forum that handles ECOTECH matters its new enhanced status.<sup>3</sup> Finally, Section 4 concludes with some observations on future success of APEC as a result of these new developments.

## **2. Past Achievements in ECOTECH Matters**

By now ECOTECH is a well-known acronym in APEC. What is not well known, however, is what ECOTECH achievements are in the APEC process. The ECOTECH agenda is run by the SOM Subcommittee on ECOTECH or ESC. According to the Terms of Reference for the ESC, this subcommittee will assist the SOM in coordinating and managing APEC's ECOTECH agenda, as well as identifying value-added initiatives for cooperative action. The main objective of the ESC as stated in its TOR is:

“...to advance more effective implementation of the APEC's ECOTECH agenda by consulting with and integrating the efforts of various APEC fora through a results-oriented, outcomes-based

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<sup>3</sup> At present the main body that handles or manages ECOTECH matters within APEC is the SOM Subcommittee on Economic and Technical Cooperation (ESC). The structure of this subcommittee may change with the new enhanced status.



approach which benefits all member economies; providing a policy management tool for strengthening and streamlining APEC's work; and providing guidance on possible actions which could be undertaken to achieve APEC ECOTECH goals, namely:

- to attain sustainable growth and equitable development in the Asia- Pacific region;
- to reduce economic disparities among APEC economies;
- to improve the economic and social well-being of the people; and
- to deepen the spirit of community in the Asia-Pacific.”

The story about the origin and development of the ESC could be found elsewhere.<sup>4</sup> It is sufficient to say here that up until 2001, the achievements of the ESC had been modest. During 1999 and 2000, the ESC has succeeded in completing the following tasks:<sup>5</sup>

- examined and reported on the 220 ECOTECH projects that were on-going or completed in 2000 with assistance from the APEC Secretariat;
- evaluated completed HRD ECOTECH projects;
- reviewed the implementation of Part II of the Osaka Action Agenda;
- monitored and reported on the implementation of projects/ activities that flowed from the Kuala Lumpur Action Programme on Skills Development and the APEC Agenda for Science and Technology Industry Cooperation into the 21<sup>st</sup> Century endorsed by APEC Leaders in Kuala Lumpur, Malaysia in 1999;

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<sup>4</sup> See, for example, Medhi (2000), Medhi (2001a, and 2001b).

<sup>5</sup> This information is obtained from the website of the APEC Secretariat based in Singapore. See, <http://www.apecsec.org.sg>

- established a system of focal points (coordinators) to review progress in the implementation of the six priority ECOTECH themes under the 1996 Manila Declaration. In 2000, the ESC reported on the themes relating to Capital Markets, Economic Infrastructure and Sustainable Development;
- reported on the implementation by APEC fora of its Guidance on Strengthening Management of APEC ECOTECH Activities;
- proposed refinements to the ECOTECH Weighting Matrix, that was designed to provide APEC fora with a better appreciation of the overall ECOTECH priorities, including desired project outcomes; and launched the ECOTECH Clearing House (<http://www.apec-ECOTECH.org>)- a website that indexes all relevant information on APEC ECOTECH activities. The Clearing House also facilitates the exchange of information between potential partners in ECOTECH activity, in particular the identification of ECOTECH requirements and the capacity to provide appropriate expertise to meet those needs.

The year 2001 could be seen as a watershed year for the resurgent role of ECOTECH in APEC. Many outstanding events had happened this year compared to previous years. Apart from routine activities of surveying and assessing ECOTECH projects undertaken by various Working Groups and other APEC fora, and monitoring activities related to given initiatives, the ESC was involved in three major accomplishments on ECOTECH matters in 2001. These three major accomplishments are as follows:

**(a) The Updating of Part II of the Osaka Action Agenda<sup>6</sup>**

Building on the success of the review of Part II of the Osaka Action Agenda in 2000 where APEC Working Groups and other fora were asked to determine what ECOTECH activities had been accomplished since 1995, and whether there was a need for its revision, the APEC Ministers in their meeting in Brunei in November 2000, tasked the ESC to develop further the Joint Activities/Dialogue sections of the OAA guidelines. This task became known as the updating of Part II of the OAA where Lead Shepherds of all existing and new Working Groups were asked to update their work programs and activities based on the original Common Policy Concepts (CPC) contained in the original 1995 OAA Part II.<sup>7</sup> Despite the extensive nature of this task or assignment, the ESC was able to cooperate with all APEC working groups to finish the updating on time, and the updated OAA Part II was submitted to the Ministerial Meeting for endorsement in Shanghai in October 2001.<sup>8</sup>

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<sup>6</sup> For those who are unfamiliar with this Osaka Action Agenda, it is a policy document agreed upon by APEC Ministers at Ministerial Meeting in Osaka in 1995. Part I of the OAA is about measures to promote trade and investment liberalisation and facilitation; Part II is about economic and technical cooperation activities divided along the line of existing APEC working groups (for example, on human resources development, tourism, telecommunications, energy, and so on).

<sup>7</sup> In 2001, one working group, the Trade and Investment Database Working Group was already disbanded. Two new working groups, the Agricultural Technology Cooperation Working Group (ATCWG) and the Small and Medium Enterprises Working Group (SMEWG) were set up from the Agricultural Technical Cooperation Experts' Group and the Policy Level Group on Small and Medium Enterprises, respectively. A new Group on Economic Infrastructure (GEI) was established in 2000 as a sub-forum under the ESC to take care of infrastructure issues.

<sup>8</sup> One of the reasons for this success in the ESC-Working Groups cooperation was the establishment of a new procedure whereby member economies were asked to volunteer to liaise closely with selected working groups to see to it that the updating is finished on time. There is always great sensitivity among working groups on the ways each carries out its work. This procedure of ESC members "latching on" to the work of working groups could be construed as an interference, unless all working groups could be assured that the ESC does not wish to establish another layer of control over the work of working groups. Trust must be established that the ESC is simply doing its assigned job of coordinating ECOTECH work within APEC or among all APEC fora.

### **(b) The Introduction of ECOTECH Action Plan (EPA)**

One policy instrument that captures the spirit of TILF in APEC is the annual submission of Individual Action Plan (IAP) by each APEC member. Following the guidelines given in Part I of the OAA, the first TILF-IAP was introduced in 1996. In short, a TILF-IAP is a policy document specifying how an economy proposes to liberalise its trade and investment, and engage in other trade and investment facilitation measures. But while this TILF-IAP can be looked upon as an excellent manifestation of APEC voluntarism and unilateral liberalisation, there is no similar or equivalent undertaking on the ECOTECH side. This point was raised during the second ESC meeting in Brunei in May 2000, but no serious follow up was taken. In November 2000, however, APEC Ministers called for a more focused and intensified action ECOTECH agenda, and instructed officials to consider the possibility of establishing individual action plans on ECOTECH.<sup>9</sup> This was the beginning of this major ECOTECH achievement in 2001

The debate on the possibility of establishing an ECOTECH-IAP started in the first 2001 ESC meeting in Beijing in February 2001. There were many sceptical members who questioned the idea of ECOTECH-IAPs on the ground of duplication of the ECOTECH Clearing House activities just introduced in 2000, on the non-quantifiability of the ECOTECH-IAP outcomes, on the guise of this ECOTECH-IAP for development assistance, and so on.<sup>10</sup> During the second meeting of the ESC in Shenzhen in May 2001 there were some examples and templates of these ECOTECH-IAPs proposed by some economies, but scepticism still remained very strong. Eventually, however, cooperative spirit among members prevailed and a compromise was reached for an introduction this 'ECOTECH Action Plan (EAP)' by members on a voluntary basis for an experimental period of two years. To help members in this new

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<sup>9</sup> However, main credit should be given to Mr. Kono Yohei, then Foreign Minister of Japan who suggested the idea at the Ministerial Meeting, which was later agreed by all ministers.

<sup>10</sup> For discussion on these debating points, see Medhi (2000a).

undertaking, this EAP would be limited to the areas of human resources development only. By SOM III in Dalian, China, nine economies had submitted their EAPs, with the possibility of many more offering to show their EAPs later. At the APEC Ministers Meeting in Shanghai in October 2001, eight more economies had submitted their EAPs. These EAPs represent past, present, and future commitments of some members on the issues of human resources development and human capacity building. Some of these plans could provide best practices for other members to replicate or emulate as a mean to improve human capacity of members in the region.

### **(c) The Launch of Human Capacity Building Strategy Report**

The Ministerial Meeting in Brunei in 2000 also instructed that a Human Capacity Building Coordination Group (HCBCG) be created to explore the possibility of drafting a strategy report on human capacity building for APEC on an annual basis. This was part of the continuation of the initiatives conceived by Brunei to increase human capacity and promote human resources development in the APEC region. The ESC was asked to be responsible for this coordination duty. During the First SOM in Beijing, therefore, the ESC prepared to take on the assignment. But since the subject of human capacity building was very wide and all-encompassing, it requested SOM to limit the scope of the report to cover only the human capacity building in the New Economy, which was also the subject the Economic Committee was asked to study.<sup>11</sup> The HCBCG worked closed with related APEC fora such as the HRDWG and the ISTWG, the Economic Committee, and the High Level Meeting on Human Capacity Building jointly organised by Brunei and China in Beijing in early 2001. The Draft Strategy Report was submitted to APEC members to discuss throughout SOM II, SOM III, and between sessions before Informal SOM in October, 2001. But due to complexities of

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<sup>11</sup> Ambassador Elard Escala, Vice Chair of the ESC, was asked to chair this Coordination Group.

issues, members could not reach agreement on its Final Report in time for the submission to the Ministerial Meeting in Shanghai in October 2001. It was, however, completed before the first meeting of SOM in Mexico City in February 2002.<sup>12</sup>

In brief, this Report recognises the importance of education and skill training to attain knowledge on information and communication technology that will change ‘digital divide’ to ‘digital opportunities’ in the New Economy. To do this, five areas of human capacity building were selected as goals or objectives for achievement. They are:

- (1) Build people’s capability through education and skill training particularly distance and life-long learning based on tripartite engagements among the government, the private business, and the academe;
- (2) Increased human capacity through education and skill training will also lead to the achievement of regional development and the reducing in poverty;
- (3) This new development must take place within the environment of equity with regard to gender, ethnic minority, age, health status, and generational differences;
- (4) Private sector and private enterprises, large and small, must be engaged to play an active part in this endeavour; and
- (5) The combined efforts will also lead to well-functioned labour markets, which will contribute to further success of the efforts.

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<sup>12</sup>However, by SOM I in Mexico City in February 2002, the HCBCG had completed its task. In the discussion at the ESC I, members decided that it was appropriate to submit the Strategy Report to SOM for endorsement, but without the attachment on possible implementation activities as that was considered to go beyond the mandate of the Ministers. The attachment, however, would remain as an informal document for consideration by relevant for a during the implementation phase of the strategy.

### 3. Forthcoming Changes and Expectations

It is obvious from the above that, in the past two years, several changes have taken place with respect to ECOTECH agendas and the ways these agendas have been pursued in the APEC process. As alluded to in the introduction, ECOTECH has come a long way since its rough beginning in 1997. Not only that the interest and attention toward ECOTECH issues in APEC are now on par with TILF issues and activities, it is possible that ECOTECH may actually sustain the viability of APEC from now until the end of the second decade of its existence when the first deadline of the Bogor goals is reached. How is this possible? For one thing, the original expectation of a continuous reduction in tariff and non-tariff barriers among APEC members toward Bogor goals may not be forthcoming owing to difficulties in domestic economic situations in many member economies. More time and more complex economic and political adjustments may be needed for future freer trade and investment in the APEC region. But the Bogor goals are still plausible and feasible if members realise that they need greater and more intensive economic and technical cooperation to push all members to freer trade and investment 10 to 20 years from now. Accepting the fact that the progress towards the Bogor goals may not come in a linear fashion, but the possibility that members may succeed in dropping all these trade and investment barriers nearer to the deadline if and when their general economic development become more sustained, and members are willing to help share their experiences and best practices with one another, help and share the concerns of development problems with one another, and so on, ECOTECH could effectively push APEC toward its Bogor goals. The followings are some the changes and expectation in ECOTECH matters that could serve to achieve this noble objective.

Many independent observers have commented on the difficulties in the ways ECOTECH agendas or objectives could be set to work. The APEC International Assessment Network or APIAN, a group of academic

people who bind together to track and assess the design and execution of APEC initiatives, for example, stated that “ECOTECH still suffers from some shortcomings, such as the excessive diffusion of limited ECOTECH resources, a lack of coordination around defined APEC objectives, and inadequate funding”.<sup>13</sup> Although there are several improvements in the ways the ESC has helped SOM conduct its ECOTECH agendas, more could be achieved by the realisation of these measures.

During 2000 and 2001, I myself in my capacity as Chair of the ESC, had suggested formally (that is in the ESC meetings) as well as informally (that is through various papers I have written in my personal capacity) about the change and improvement in the role of the ESC in its handling of the ECOTECH matters (see, for example, Medhi 2000, 2001a, and 2001b). But I have realised that in a consensus-based organisation such as APEC (and also its fora such as the ESC), more concerted efforts among members are needed to bring in those changes and improvements. During the ESC III meeting in Dalian, China in August 2001, the discussion on the role and mandate of the ESC in its handling of the ECOTECH matters had come up again. This time I realised that there must be a group effort in drafting a position or review paper on the role and mandate of the ESC before any concrete change or improvement could take place, so I asked New Zealand to undertake the study of the role and mandate of the ESC in cooperation with interested members.<sup>14</sup>

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<sup>13</sup> APIAN (2000), ‘Learning from Experience’, the First APIAN Policy Report, November 2000.

<sup>14</sup> The main reason I decided to ask New Zealand to volunteer to do this was that New Zealand had just succeeded in undertaking the ECOTECH Clearing House project where all information relating to ECOTECH projects in APEC were electronically archived for easy use and references. Among APEC members, it probably had the greatest and most recent experience in ECOTECH matters. I also appreciated the position of New Zealand that, despite its early reservation (one could even say objection) to the ECOTECH Action Plan (EAP) idea, it had become one of the first batch of members who submitted their EAPs.



In the excellent report that New Zealand has prepared, six pertinent questions concerning the past and present roles of ECOTECH and the ESC were asked, and some answers to these questions were discussed. These questions and answers came from the review of past records of ECOTECH activities by the New Zealand Study Team, and the opinions and comments from interested ESC members. These six questions that the New Zealand Report poses are:

1. What is the ESC's current role and mandate?
2. Why was the ESC given that role and mandate?
3. What further instructions have there been to the ESC from Leaders, Ministers and SOM since its establishment in 1998?
4. What changes in the APEC environment have there been since the ESC's establishment in 1998?
5. What are the achievements of the ESC in relation to the expressed objectives, and what are the problems/obstacles faced?
6. Is there anything in (or not in) the ESC's mandate which restricts its activity in areas where it may be desirable for the ESC to have a role?

The answers given in the New Zealand Report could be summarised as follows:

**(a) On the current role and mandate of the ESC**

The Report had made substantial reference to the Terms of Reference as agreed by SOM in Penang in February 1998 in regard to the role and mandate of the ESC. In summary, the ESC's over-arching role is to assist the SOM in coordinating and managing APEC's ECOTECH agenda. The particular types of activity envisaged include:

- **examine** and **review** ECOTECH activity underway or completed
- **identify** possible ECOTECH initiatives which could be undertaken in the future
- **consult** with various APEC fora and the private sector on how to integrate effort and strengthen and streamline ECOTECH work
- **encourage** participation of the private sector
- **evaluate** proposals to include new ECOTECH themes in the 1996 Framework
- **report** to SOM on any of the matters above, and recommend appropriate action
- **undertake** ECOTECH-related tasks as directed by Senior Officials

From the above account, it may be seen that the ESC's mandate is very wide; there is virtually no limit to the extent to which it can consider, analyse, and report on ECOTECH issues. The ESC can interact with all APEC fora, including committees and working groups. But while the mandate may be very wide, the power or authority of the ESC may be limited. The ESC's role is to assist (*italic in the original*) the SOM in the management and coordination of the ECOTECH agenda; it is not the ESC's role to manage and coordinate ECOTECH in its own right. (In a similar way, other fora such as the CTI and EC revert to SOM on important issues.) Rather than articulating a narrow list of actions for the ESC, the purpose of the mandate seems to be to ensure that SOM is provided with appropriate recommendations on a very wide field of ECOTECH issues.<sup>15</sup>

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<sup>15</sup> It seems that the New Zealand has interpreted a somewhat restrained role for the ESC in the context of overall function of APEC organisations. If this interpretation is correct, it could explain why New Zealand had a somewhat reserved position regarding the ESC support for the launch of the EAPs in 2001.

**(b) On the reasons the ESC was given its role and mandate**

The New Zealand Report referred to the decision of the SOM to establish the ESC in 1997. It was not clear from the report how the decision was made to establish this new APEC forum as a subcommittee attached to the SOM rather than a committee similar to the CTI, although it did report the suggestion by the Canadian SOM Chair in his paper entitled “Implementation of APEC’s Economic and Technical Cooperation Agenda”, which outlined steps taken to improve the coordination of the ECOTECH agenda, tabled at SOM III which included 3 options for the management of such an agenda. These 3 options were:

- SOM could continue as the coordinating body using a more “hands-on” approach;
- the SOM Committee of the Whole (COW) could continue to review ECOTECH issues on an annual basis; and
- an ECOTECH Committee (ETC) could be created.

After reviewing these options, “SOM agreed that while consensus had not yet been reached, there had been a favourable evolution of opinion ... towards a concrete mechanism for coordination, possibly through the establishment of an ETC”. Nevertheless, an agreement was reached that, instead of this new APEC forum to help SOM manage ECOTECH agenda being set up as an ECOTECH Committee (ETC), it would be set up as a subcommittee attached to the SOM, and would be called SOM Subcommittee for Economic and Technical Cooperation or ESC.<sup>16</sup> The Terms of Reference of the ESC which was drawn up later was very much based on this compromise.

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<sup>16</sup>I have mentioned in my other paper (Medhi 2000) that some developed economies members objected to the creation of this special APEC forum to coordinate the ECOTECH work on the reasoning that such creation might dilute the importance of TILF which was the primary objectives of APEC and might turn APEC into a mutual aid-giving and aid-receiving organisation, while some developing economies members insisted that this special forum to coordinate ECOTECH activities was needed as an important objective of APEC was economic and technical cooperation, not aid-related developmental activities. Therefore, a committee equivalent in structure with the CTI was necessary. In the end, however, a compromise was reached whereby this forum was set up, not as a committee like the CTI or the Economic Committee (EC), but as a sub-committee attached to the SOM.

**(c) On further instructions to the ESC since its establishment in 1998**

The New Zealand Report went back to the resolutions from various ministerial and leaders meetings to see if there were specific instructions to the ESC. For example, it referred to the 1998 Leaders' instruction to Ministers to give further focus to strengthen coordination in ECOTECH activities and intensify work in the priority areas. In 1999, it reported the Leaders' decision to direct Ministers to give special attention to improving effective and coordinated delivery of APEC's ECOTECH and capacity building programs. In the 2000 APEC Summit in Brunei, the Report pointed out the Leaders' direction to the Ministers to call for a more focused and intensified ECOTECH action agenda. And finally, in Shanghai in 2001, the Report mentioned the Leaders' recognition of the importance of substantially enhancing the profile of ECOTECH and improving the coordination and management of ECOTECH activities in all fora. The reference to the Management Review of APEC in 2001 pointed out the need to streamline the APEC process and make it more focused and effective, in light of an increasing number of APEC fora and meetings/events. In all, the Report suggested that all of the above references were consistent with the ESC's Terms of Reference as originally drafted. The instructions from Leaders and Ministers disclosed an ongoing concern with the *coordination and quality* (italic in the original) of APEC's ECOTECH work. The ESC's mandate was specifically designed to address these issues. The comments suggested a need to *implement* (italic in the original) the ESC's mandate, not change it.

**(d) On changes in the APEC environment since the ESC's establishment in 1998?**

The New Zealand Report mentioned several changes in the environment surrounding the work of the ESC in the last four years of its existence: the success of establishment of the Doha Round of multilateral trading negotiations; the need for greater relationship between TILF and

ECOTECH activities; the trend for greater openness and wider participation in APEC's work from outside organisations; and the importance of other cross-cutting issues such as human capacity building, the New Economy, and gender integration. However, while the importance of ECOTECH seems to increase with time, it appears that the direction for the improvement of ECOTECH activities within the APEC process itself was quite vague.<sup>17</sup>

**(e) On the achievements of the ESC in relation to the expressed objectives, and the problems or obstacles faced?**

While the New Zealand Report listed several of the achievements of the ESC in a separate annex, some of which I have alluded to in the early part of this paper, it has recognised many difficulties and obstacles that stood in a way of fulfilling its functions, and one of these difficulties was the lack of authority or status on the part of the ESC. However, the Report kept coming back to the strict interpretation of the TOR of the ESC that its primary role is to assist SOM in its management of the ECOTECH agenda, not to manage it on its own account. Accepting the fact that if the ESC has only recommendatory (rather than decision making) role, the effective management of ECOTECH agenda would be impeded, the Report tried to point out if the ESC were to be given the status of a committee, its function would be limited to the management of Part II of the OAA only, whereas the ECOTECH activities related to Part I of the OAA would expressly fall under the jurisdiction of the CTI. This, in the opinion of the New Zealand Report, seems to be inferior to the current status and position of the ESC as a subcommittee attached to the SOM because SOM would have power and authority to enable the ESC to maintain a very broad oversight of all ECOTECH activity, including the ECOTECH aspects of projects being carried out by CTI

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<sup>17</sup>On the future direction of ECOTECH activities, I have argued that those involved in the APEC process at all levels were not sure of what that direction should be. A more urgent issue was not a way to move forward but a way to move out of the problems facing the nature of the ECOTECH work. See my paper Medhi (2000).

sub-fora under Part 1 of the OAA. In short, the ESC does not have to change its mandate to consider issues such as the most effective institutional structure for advancing ECOTECH.

On the restrictions of the current mandate for the role of the ESC, the Report had discussed several issues that might restrict the current role and functions of the ESC. For example, on the organisation of the ECOTECH agenda, the Report recognised the multiplicity of fora, initiatives and priorities which make it difficult to have a measurable impact on public well-being. It even quoted a passage in the Second APIAN Policy Report that the vast lists of ideas, goals and projects loosely grouped under the ECOTECH umbrella need to be reviewed and reduced to a more manageable set of coherent programs. The Report suggested that it might be possible to establish a shorter list of priorities for APEC funding, and to direct scarce resources to those issues.

**(f) On strengthening outreach and engagement with other organisations**

The Report referred to the endorsement of Ministers and Senior Officials to the APEC Secretariat's communications strategy to guide future communication and outreach efforts. It also referred to the Ministerial Statement made in Shanghai in 2001 where it recognised the need for APEC to interact with bilateral, regional, and international organisations and financial institutions with a view to fostering cooperation, broadening support and leveraging financial resources to boost ECOTECH activities. There is no conflict on this line of activities with the original TOR, as Paragraph 5 of the ESC's TOR states that the ESC will "encourage active participation of the private sector in the activities of economic and technical cooperation".

The New Zealand Report had made a brief reference to the APEC project cycle, that is to say how APEC projects are being submitted, approved, managed and evaluated. On this point, the ESC has no direct involvement with this project cycle, from early inception to final evaluation. Although it was the ESC which designed and suggested the use of

the ECOTECH Weighting Matrix, a kind of tool that ranks worthiness of a project on economic and technical cooperation aspects, the ESC has no part in the implementation and enforcement of this tool. Because of this lack of direct involvement in the cycle of ECOTECH projects, it was argued that it is difficult for the ESC to provide leadership on ECOTECH. What makes this more complicated is that the Japanese has already provided a large sum of research funds to APEC for use in the TILF areas which were overseen by the CTI. ECOTECH projects are not eligible to use this fund.<sup>18</sup>

The intra-APEC relationship between the ESC and other APEC fora was also discussed in this section. It has been observed that, since the inception of APEC, APEC Working Groups operate relatively independently from policy oversight of SOM, Ministerial Meeting and Leaders' Meeting. The only time that Lead Shepherds of Working Groups meet face to face with SOM leaders is during Joint Fora Meeting which usually takes place after SOM I. But even on this occasion, some Lead Shepherds may decide not to join. The sensitivity of the independence of Working Group was so pervasive that it is difficult even to raise the issue whether the ESC Chair should have the right to attend a Working Group meeting without asking for a prior permission, let alone any indication of oversight or control by the ESC.

Not counting the Budget and Management Committee (BMC) which is very much an accounting unit for project approval in APEC, the three APEC fora, namely the CTI, the ESC, and the EC, are more or less of equal rank and stature, but the intra-APEC relationship between the three was almost non-existent. In fact, meetings of all three fora during the three SOMs take place on the same days and at the same times. There is no way that the chair of each forum could attend the meetings

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<sup>18</sup>In 2000, the Japanese government was considering changing this rule where the so-called TILF Fund could also be used on ECOTECH projects. However, lack of final agreement between the two administrative organisations representing Japan (the Ministry of Foreign Affairs and the Ministry of International Trade and Industries (MITI)) had prevented such change of rule to take place.

in other fora (except of course that he or she has asked someone to chair the meeting for him or her). Although the Leaders in Shanghai had said that TILF and ECOTECH should be mutually reinforcing, there is yet any plan that this intra-APEC relationship among APEC fora could take place any time soon.

Finally on the issue of the profile of the ESC as a subcommittee or a committee, there was a subtle difference between Version 1 and Version 2 of the New Zealand Report. It seems to me that Version 1 of the Report had shown an inclination to support the status quo, that is keeping the current status of the ESC as a subcommittee, whereas in Version 2, this support for the status quo was not as clear. Perhaps the Report has received strong comments from some members who are really in favour of changing the ESC to the ETC or ECOTECH Committee. The resolution of the ESC meeting in Mexico City in February 2002 on this issue was for the ESC to continue to debate in its subsequent meetings until a consensus or a compromise is reached.

#### **4. Comments on the Recommendations of the Report**

After taking into accounts all the written comments from members, the New Zealand Report makes the following recommendations:

##### **On Defining ECOTECH**

Point no. 1: “ECOTECH” for the purposes of the ESC’s work should be taken to mean all economic and technical cooperation work undertaken under the APEC umbrella, rather than only that work which flows from Part 2 of the Osaka Action Agenda which is generally funded by the Operational Account

Point no. 2: Consideration should be given to including emerging cross-cutting themes (such as human capacity building, new economy and gender integration) as priority areas within



the *Framework for Strengthening Economic Cooperation and Development*

Point no. 3: In order to seek a more focused and results-oriented ECOTECH program, APEC should earmark resources to a shorter list of strategic priorities, drawing from the overall categories of ECOTECH activity set by Leaders and Ministers (the four goals, the six themes, the four principles, the thirteen areas from the OAA Part 2; the fifteen areas from OAA Part 1, the five key initiatives)

### **On Integrating ECOTECH**

Point no. 4: The ESC should examine options for furthering the mutual reinforcement of ECOTECH and TILF, for example by:

- (a) removing the formal separation of activities by funding source (operational account or TILF account)
- (b) formal consultations between the ESC and CTI with a view to distilling a common set of capacity building/technical cooperation objectives

### **On Coordinating ECOTECH**

Point no. 5: Consideration should be given to whether the ESC should have direct oversight responsibilities in the process through which projects are conceived, developed and approved, for example by:

- (a) endorsing/ranking working group project proposals (under OAA Part 2) before submission to the BMC (such endorsement could be by way of assessment against the *Guidance on Strengthening the Management of APEC ECOTECH Activities* and/or the ECOTECH Weightings Matrix)

- (b) having the ESC Chair attending BMC

Point no. 6: Consideration should be given to whether the ESC should work more closely with other APEC fora on ECOTECH issues, for example by:

- (a) having working groups report directly to the ESC
- (b) having ESC members ‘adopt’ a working group to follow, either by attending meetings and/or receiving the communications of that group
- (c) formal consultations between the ESC and CTI
- (d) reviewing the reporting requirements of fora, including ways to increase the level of feedback to fora on how reporting is used and reduce the compliance burden (for example by rationalising reporting requirements and making better use of information collected)

Point no. 7: The ECOTECH Sub-Committee should be renamed the ECOTECH Committee (ETC) with a mandate substantially the same as the current mandate of the ESC.

My comments on the above recommendations are as follows:

On Point no. 1: I agree that ECOTECH should mean all activities that flow from both Part I and II of the OAA, and not just from Part II only as the dividing part may seem to suggest. But to interpret ECOTECH in this way has by no means assumed that the ESC must remain a special subcommittee attached to the SOM to be able to undertake this role to assist SOM in carrying out its duties.

On Point no. 2: Constant awareness and consideration on cross-cutting issues are fine but must be weighed against the net benefits and costs of such efforts. For example, while the awareness and concern for gender integration in APEC should be supported in general,

the practice of splitting everything along the line of gender may be counter-productive as not every issue has critical gender implications. Emphases on too many cross-cutting issues could also be similarly costly. On this score, the ESC has made a smart move to choose only human capacity building as its only subject of focus for its first foray into ECOTECH individual action plan, as it was pointed out earlier.

On Point no. 3: The shorter list of strategic priorities could be supported along the line of argument above. There are no iron-clad reasons that ECOTECH must always contain the six themes in the Manila Framework. Efficiency and practicality should be a better guide of selecting priority for policy action.

On Point no. 4: The idea of formal consultation between the ESC and the CTI with a view to distilling a common set of capacity building/technical cooperation objectives is excellent. And that should include the same between the ESC and the EC as well.<sup>19</sup>

On Point no. 5: I strongly support the suggestion of the ESC having direct oversight responsibilities in the process through which projects are conceived, developed and approved. This should also extend beyond the realm of APEC project cycle into the operations of Working Groups as well. Not only that the ESC Chair be invited to sit with the BMC as a full deliberating and decision-making member, the same invitation should be extended to the CTI and EC Chairs as well.

On Point no. 6: The response has been made in Point no. 5 above regarding the new relationship between the ESC and the Working Groups. Care must be taken in not trying to institute additional layers of administrative duties but to create a more coordinated working relations.

On Point no. 7: The SOM could continue to have its special relationship with regards to the ESC role and mandate, but the rationale behind the agreement to establish the ESC as a subcommittee is no longer valid in today's environment. The change of the ESC to the ETC is a

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<sup>19</sup> Although I should report that I have heard some suggestion concerning the merging of the EC with the ESC once the ESC has taken the form of the ETC.

major institutional change that will enhance the position and importance of ECOTECH in particular, and of APEC in general. The new organisation structure of APEC process with the ESC being changed to the ETC is shown in Chart 1.

## **5. Summary, Conclusions, and Future Prospects for ECOTECH**

In this paper I have tried to recount the recent developments and successes of ECOTECH in carrying out its coordination, dissemination, and participation functions. It was pointed out that, in addition to the general survey of completed ECOTECH projects, the ESC (mainly through designated officers of the APEC Secretariat) also conducted the follow-up of such ECOTECH initiatives as the Agenda for Science and Technology Industry Cooperation, the Kuala Lumpur Action Program on Skills Development, and the progress on the implementation of the APEC Food System. But none of these activities could match the three most outstanding ECOTECH accomplishments this year: the updating of Part II of the OAA; the introduction of ECOTECH Action Plans (EAPs) on human resources development; and the launch of the first Human Capacity Building Strategy Report. This had enhanced the posture of ECOTECH in the APEC process so much that the new analogy for ECOTECH is the second wheel of the APEC bicycle, not the third pillar of the APEC structure. Further changes, however, are expected on ECOTECH to enable it to sustain the viability of APEC in the future. Changes such as the upgrading of the ESC from a subcommittee to a committee, the strengthening of the APEC Secretariat to perform larger evaluation and analytical duties, or the engagement of outside experts to do the same, or greater participation with outside organisations, are recommended for the improvement of the role of ECOTECH for future success of APEC.

After intense activities on ECOTECH by the ESC in 2001 which have brought about much success in its outcomes as referred to above, the mood of the ESC has become a little sombre in 2002. The debate on the role and mandate of the ESC during SOM I and SOM II perhaps acted as a brake to the rapid movement or motion of the ESC in the previous two years. The cautious approach on the future of ECOTECH and the ESC may be necessary if APEC members were to be satisfied with an appropriate function of this regional grouping. But too much caution could have rekindled historical fear that developed members in APEC are not really interested in ECOTECH because their main concerns are more on trade liberalisation, and the debate and exchange of views within the ESC and SOM meetings simply serve to underscore the wish to play down the present and future role of ECOTECH and the ESC. It is regrettable if this is true.

Other observers have been more forthright than myself on the future role and mandate of the ESC shown here in this paper. Andrew Elek (2002), for example, went straight to the point and said that the ESC of the SOM needs to be given the unambiguous responsibility, combined with the necessary authority, to respond to objectives set by the APEC leaders. To achieve this, Elek suggests that the ESC needs to be redefined as a full committee of APEC to be called an ECOTECH Committee or ETCC, with broad authority to shape the work of APEC on matter rather than TILF. To him, the ETCC would facilitate the work of Task Force set up to implement new APEC objectives such as region-wide access to information and communications technology (ICT) in addition to coordinating the general ECOTECH activities of working groups such as HRD. Of course, Elek has realised the sensitivity and complexity of the new relationship between the new ETCC and the existing structures of APEC fora, and has discussed about several options on how to cope with these issues. But obviously Elek's vision has gone beyond this organisational issue into more substantive future ECOTECH activities (of which achieving complete internet access among APEC members by the year 2010 is one).

As the deadline of the Bogor goals is nearing, concerns have been expressed around the APEC fora that if the momentum of trade and investment liberalisation is slackening, the future promise of APEC could be jeopardised. It is not uncommon, therefore, to see some APEC members pressing for greater and faster commitments toward free trade and investment among APEC members. While all APEC members are proponents of freer trade and investment, the level of economic development of all members are not the same. Therefore, it is difficult to observe exactly the same rules and same timetables for free trade and investment. This is why ECOTECH is of critical importance because it can help accelerate the development of members; it can share development practices across members; more developed members can help less developed members through technical or financial assistance; and so on. APEC is a unique international organisation or association based on voluntarism and unilateral liberalisation. The success of APEC cannot be measured by how many trade agreements have been concluded and enforced, but on how committed members are on working together toward the Bogor goals, on willingness to help one another, on sincere wishes for greater participation from people or organisations outside the APEC official circle. These are within the realm of interest of ECOTECH in APEC, and as such, ECOTECH is truly the wheel that drives APEC now and in the future.

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## **ANNEX: TERMS OF REFERENCE OF THE SOM SUB-COMMITTEE FOR ECONOMIC AND TECHNICAL COOPERATION**

### **A BACKGROUND**

1. SOM has been mandated by Leaders to mandate and coordinate the APEC Economic and Technical Cooperation (ECOTECH) agenda. In Vancouver, Ministers have committed to further strengthen economic and technical cooperation in APEC by fully implementing the *Framework for Strengthening Economic Cooperation and Development*, which was agreed in Manila. In this connection, Ministers endorsed the proposal by Senior Officials to establish a SOM Sub-Committee for Economic and Technical Cooperation.
2. The SOM Sub-Committee will assist the SOM in coordinating and managing APEC's ECOTECH agenda, as well as identifying value-added initiatives for cooperative action.

### **B OBJECTIVES**

3. The main objective of the SOM Sub-Committee is to advance more effective implementation of the APEC's ECOTECH agenda by consulting with and integrating the efforts of various APEC fora through a results-oriented, outcomes-based approach which benefits all member economies; providing a policy management tool for strengthening and streamlining APEC's work; and providing guidance on possible actions which could be undertaken to achieve APEC ECOTECH goals, namely:



- To attain sustainable growth and equitable development in the Asia-Pacific region;
  - To reduce economic disparities among APEC economies;
  - To improve the economic and social well-being of the people; and
  - To deepen the spirit of community in the Asia-Pacific.
4. The pursuit of the ECOTECH goals through concrete projects will take into consideration members' diverse and complementary capabilities and guided by the principles of :
- Mutual respect and equality;
  - Mutual benefit and assistance;
  - Constructive and genuine partnership; and
  - Consensus building.
5. The SOM Sub-Committee will serve as a forum to discuss, formulate as well as coordinate action oriented integrated strategies in consultation with existing APEC groups and the business community, as necessary to implement the *APEC Framework for Strengthening Economic Cooperation and Development* which has identified the following six priority themes:
- Develop human capital
  - Develop stable, safe and efficient capital markets
  - Strengthen economic infrastructure
  - Harness technologies for the future
  - Safeguard the quality of life through environmentally sound growth
  - Develop and strengthen the dynamism of SMEs

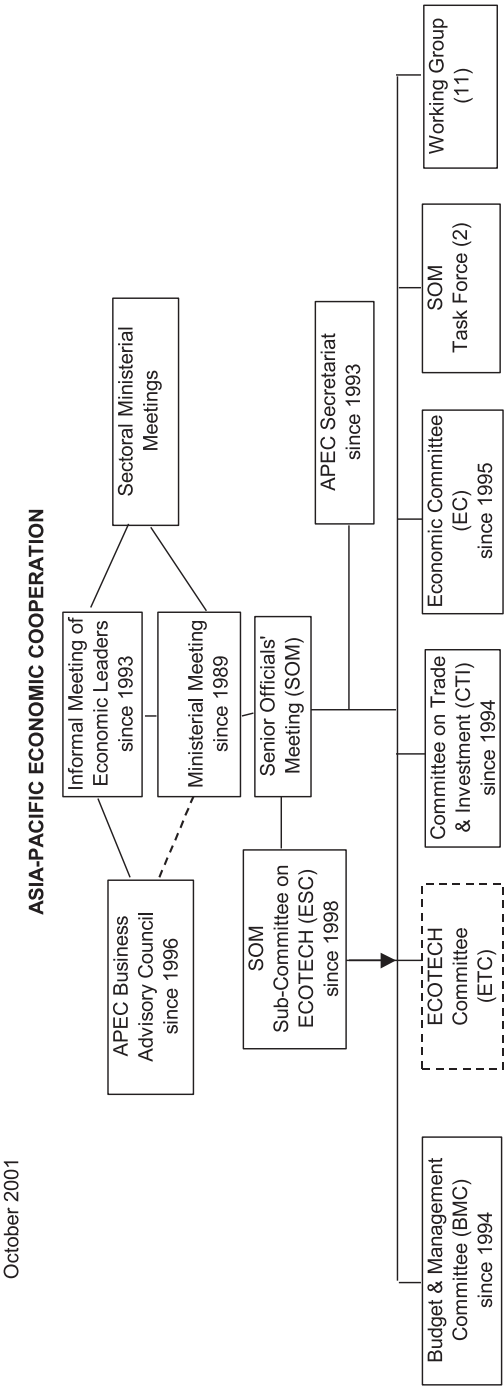
## C Activities

### 6. The SOM Sub-Committee will :

- Report to SOM on its proposed work program and assist the SOM to effectively implement the 1996 Framework for Strengthening Economic Cooperation and Development. In so doing, the SOM Sub-Committee shall ensure that all the elements of the Framework are developed.
- Review progress of APEC activities towards achieving APEC ECOTECH goals.
- Identify and recommend for Senior Officials consideration specific issues and value added initiatives to assist the achievement of ECOTECH goals taking into account the economic situation, requirements and capacities of all member economies.
- Examine and evaluate ECOTECH programs and activities and recommend to Senior Officials means to achieve visible, targeted and result-oriented deliverables to address member economies priorities.
- Assist the SOM to improve the management and coordination of ECOTECH activities among APEC fora, including APEC working groups and policy level committees, with a view to improving the identification and coordination of new cross-cutting issues.
- Evaluate proposals to include new priority areas within the Framework for Strengthening Economic Cooperation and Development.
- Encourage active participation of the private sector in the activities of economic and technical cooperation. Consider the recommendations of ABAC regarding the process of economic and technical cooperation in APEC.
- Undertake ECOTECH-related tasks as directed by Senior Officials.

**D ORGANIZATION AND OPERATION**

7. A Chairperson will be appointed who will be devoted to meeting the objectives of the SOM Sub-Committee.
8. A Vice-Chairperson(s) will be appointed to assist the Chair in managing the tasks and work program of the SOM Sub-Committee.
9. The Chairperson and Vice Chairperson(s) will serve for a term of two years.
10. Membership of the SOM Sub-Committee will be open to all economies.
11. The SOM Sub-Committee shall meet regularly.
12. The SOM Sub-Committee would report regularly to the SOM.
13. The operation and effectiveness of the SOM Sub-Committee will be reviewed at the end of a 2-year term.



## **7. HOW TO SUCCEED IN ECOTECH WITH (OUT) REALLY TRYING\***

**By Medhi Krongkaew\*\***

### **1. Introduction**

In the 1967 Broadway musical: How to Succeed in Business Without Really Trying, by Frank Loesser, the main character of that musical, J. Pierpont 'Ponty' Finch succeeded in transforming himself from a window washer to vice president of a large modern business company within a short period of time. He did it through sheer determination to succeed, perseverance, and cunning adjustment to changing environments. His success might seem easy--that he got it 'without really trying', but indeed he had tried hard to get what he wanted. It is his determination that made his success looks easy.

I have set the title of this paper to mimic this successful Broadway musical because I feel that the success in ECOTECH could also be achieved through sheer determination and resourcefulness of APEC members. For some, especially developing members of APEC, the success may be forthcoming through really working hard at it, but for some, especially developed members of APEC, the success can be almost at their finger-tips if they have the right approach to it. In this paper I will try to demonstrate and substantiate what I mean.

As the third pillar of APEC, or to use a new analogy, the second wheel of APEC, ECOTECH has since 1998 been widely and at times,

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\* Paper presented at the ECOTECH Workshop organised by the Mexican government in Acapulco, Mexico, on August 15, 2002.

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intensely, discussed among APEC forums. Two fundamental issues being discussed and debated seem to be that, one, should it be given a heightened role that challenges the primary importance of trade and investment liberalisation and facilitation (TILF) which is what APEC originally was about, or, two, if it should, what can APEC members do in, and about, ECOTECH? If the answer to the first question is a strong affirmative, then, the second question could be addressed or tackled more easily. But if many members are still not cleared how to answer the first question, then it makes the second question much more difficult, if not impossible, to answer.

In this paper I will argue that there are different ways in which one could define success in APEC, especially in ECOTECH. An adherence to a strict definition of success could jeopardise the future direction of APEC activities, including ECOTECH activities, and consequently erode the confidence of members towards the ideal of APEC. The way I see it, there are several pre-conditions that determine the success of APEC, either in TILF or ECOTECH. Many of APEC members have already satisfied or fulfilled these pre-conditions, whereas many are still struggling to do so. I have adopted the PECC Concept of 3 Building Blocks that are being used to promote community building in Asia Pacific and will apply them here to promote successful activities in APEC ECOTECH. Finally, I will discuss certain institutional and policy changes that are likely to bring about successful ECOTECH activities in the future.

## **2. Measurements of Success in ECOTECH**

Unlike TILF where the outcome or success of this aspect of APEC activities can be measured through reduction in tariff and non-tariff barriers, and agreements on standards and procedures in trade and investment activities, the outcome or success of ECOTECH are

more difficult to measure.<sup>1</sup> The standard practice adopted in the APEC process so far (at least by the APEC Secretariat) is to measure this aspect of success in ECOTECH in terms of the progress made in the ECOTECH initiatives specified by APEC ministers and leaders, and in the number of ECOTECH projects completed each year. Obviously, these are not an adequate indicator of success. The success in ECOTECH in the APEC process must be looked upon more abstractly as the increase in the capability of all APEC members to trade and invest freely with one another.<sup>2</sup>

This capability can be more than just a number of years that a child has spent in school, or a number of trainings that a worker has received during his employment. It should be understood as the overall capacity of the people in each APEC economy to understand the requirements for free trade, and to prepare themselves adequately to be an active member of such a free trade system and to benefit more fully from it. To begin with, a 'new' APEC member must fully subscribe to the APEC Principles of voluntary and unilaterally liberalisation, acceptance of the power of free trade, and the need to help one another (see Box 1). After this, there are certain requirements on economic and political development that this APEC member may have to possess before any meaningful benefits

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<sup>1</sup> The ultimate success of TILF aspect of APEC is probably the achievement of the Bogor goals of free trade and investment in the Asia Pacific region in 2010 and 2020. Although this agreement is somewhat loose in the sense that no one can say that the post-2010 APEC will be a free trade area, or a customs union, and other more integrated groupings, many would agree that at least tariff reduction is one straightforward indicator of the success in trade liberalisation. But while linear tariff reduction by all APEC members may be looked upon as a necessary indicator of progress in trade liberalisation, it is not sufficient because many economies are faced with different domestic situations that do not allow continuous tariff reduction. As long as members have agreed to lower tariff barriers, and made annual commitments to doing so in their annual TILF IAPs, this should be sufficient to recognise it as a progress, if not a success.

<sup>2</sup> It may be construed that increased capacity to serve free trade and investment is equivalent to ECOTECH helping TILF fulfilling its objectives. It is possible to see ECOTECH's capacity building as a stand-alone objective that leads an economy to sustainable development. Such an economy is, perforce, at ready to take part in free trade system.

from APEC membership could be achieved (see Box 2). Many people or organisations will view these requirements differently. ABAC (2001), for example, believed that to derive fully the benefits of liberalisation, every economy needs to strengthen the capacity of its institutions and individuals to adjust to rapidly changing external environments. ABAC is particularly concerned with three important aspects of capacity building, namely institutional development, human resource development, and the enhancement of management capability. Here, institutional development includes sound legal and regulatory systems, comprehensive and well-balanced policy frameworks and greater transparency. For human resource development, the priority is set to enable more people to share knowledge and skills through education and training. And, finally, for private management capability, private business must adopt global principles and best practices in corporate governance, and to follow international standards in accounting and risk management.

In a recent paper, Elek (2002) maintained that there are several ‘ends’ of APEC that have been endorsed by APEC leaders such as free and open trade and investment by 2010/2020, enhanced capacity to implement WTO undertakings, enhanced capacity for financial sector management, and community-based access to ICT via the internet by 2010. For the majority of these ends, it appears that ‘capacity building’ would be recognised as a means to these ends. Activities that lead to capacity building are obviously ECOTECH, including the capacity building activities that prepare members for successful membership of the WTO. As such they could also be counted as ECOTECH activities.<sup>3</sup>

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<sup>3</sup> The current state of affairs where these WTO-related capacity building activities are being undertaken by the CTI without any knowledge, let alone participation, of the ESC is certainly dissatisfactory. Although it is realised as ‘hardly practical’ the idea that the ESC be given the mandate to steer the priority-setting procedures of the CTI and the BMC on capacity building issues, as this is the ‘core business’ of the SOM (not mentioning the possible protest from the CTI and the BMC), Elek did suggest that a committee, comparable to the CTI, be set up to be responsible for implementing an ECOTECH subset of objectives set by APEC leaders. This committee which Elek called the Economic and Technical Cooperation Committee or ETCC would evolve from the current ESC. See more on this later.



I will have more to say on this capacity building as the fulfilment of pre-conditions for successful membership of APEC in the next section. In this section which touches on the issue of the measurement of success in ECOTECH, I want to mention a simple measurement of success in ECOTECH through its better plans for future execution of ECOTECH activities. Success in ECOTECH activities could be measured through better achievements of the following plans:

**(a) Plan for better coordination**

As it stands today, a major function of the ESC is to help SOM coordinate ECOTECH projects in APEC. The ESC coordinates ECOTECH projects by classifying them into the six themes of ECOTECH as specified in the Manila Declaration on an Asia Pacific Cooperation Framework for Strengthening Economic Cooperation and Development. From 2000 onward, all information concerning completed and on-going ECOTECH projects are stored in the so-called ECOTECH Clearing House Facilities System. This system, once fully realised, should help toward increasing the effectiveness of ECOTECH coordination as it can be used to check against duplication of projects as well as provides past information on various aspects of ECOTECH research. New information will be regularly added to the basic structure to make it an up-to-date source of ECOTECH information. The evaluation of the finished ECOTECH project is more difficult. As practised in APEC, completed projects are self-assessed by the research teams or organisations. This is obviously unsatisfactory as there is an in-built bias to such a procedure. A better solution would call for independent experts from outside the official APEC process to assess and evaluate these completed projects. The APEC International Assessment Network (APIAN), an independent APEC Think-Tank group, has already been asked to assess and evaluate some finished ECOTECH projects. This should contribute to greater success in the coordination function of ECOTECH.

### **(b) Plans for Better Dissemination**

That APEC is run mainly by government officials is not to be disputed, but because the government needs the support of the people to survive, what the government officials have done in APEC must also be supported by the people at large. First, the public at large must be regularly informed of what happened in APEC. Second, they should be provided with an avenue or opportunity to take part in decision making concerning policies that will affect their lives, or opportunity to express their views or opinions on APEC issues. This is an important policy that the ESC has put a great deal of efforts into. But this should not be the duties of the ESC and the APEC Secretariat only; every APEC economy should all take part in this APEC outreach or dissemination activities.

### **(c) Plans for Better Participation**

Coordination and dissemination are part of the activities that fall into what is known as Type I of ECOTECH function or activities.<sup>4</sup> This is a narrow function of ECOTECH in APEC. It concerns with what government agencies within APEC have carried out among themselves. The ESC has recently argued that APEC, especially ECOTECH, can no longer confine itself to this Type I of activities. On the contrary, APEC has to reach out, to participate in others' activities, or invite or encourage other individuals, institutions, or organisations to participate in APEC activities. These broad function of ECOTECH which involves people outside the official APEC circles is called Type II of ECOTECH function or activities. This does not mean that APEC has never engaged people outside the official APEC circles. In fact one of the strongest support of APEC from the business sector in APEC is from the APEC Business Advisory Council (ABAC). But even in this case, there is still room for improvement. Other organisations that have been associated with APEC within this category of Type II function of ECOTECH include the Pacific

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<sup>4</sup> For more explanation on how these Type I and Type II functions could operate, see Medhi (2000).

Trade and Development Conference (PAFTAD), the Pacific Economic Cooperation Council (PECC), the Foundation for Development Cooperation (FDC), the Pacific Basin Economic Council (PBEC), and the APEC Study Center Consortium.<sup>5</sup>

During the past two years, there have been several activities undertaken by APEC members under suggestions and oversight of the ESC that combined the above three functions together, and could rightly be called a success. The establishment of the ECOTECH Clearing House in 2000 is an example of good combination of coordination and dissemination functions. The review and updating of Part II of the Osaka Action Agenda completed in 2001 was made possible through a new relationship between the ESC and various Working Groups. Perhaps most important of all is the agreement to launch of ECOTECH Action Plans (EAP) by APEC members in 2001 on experimental basis for two years. This was a bold statement from APEC to the world that APEC members are serious about increasing human capacity among themselves through individual as well as collective actions.<sup>6</sup>

### **3. Pre-conditions for Success in ECOTECH**

Again, the existence of the above plans, while necessary for an immediate improvement in the functioning of ECOTECH activities in APEC, may not be enough to sustain a long-term success of ECOTECH in APEC. What this means is that there is a set of pre-conditions that APEC members need to fulfil in order to reach more sustainable success

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<sup>5</sup> For more detail on how these organisations have become involved in APEC, see Medhi (2000b).

<sup>6</sup> Some critics are not satisfied with the nature and characteristics of these EAPs submitted by APEC economies, saying they are simply a collection of facts about educational and other human resources development systems and programs of members. This may be partly true, but the true benefits of these EAPs have not yet been fully realised. A special taskforce needs to be set up to study, assess, evaluate and suggest ways to improve the formulation of EAPs. Two years are too short for the experimentation of something very new and very innovative as the EAPs.

of ECOTECH in the future. There are at least two types of pre-conditions facing each APEC members, one could be called policy pre-conditions, the other institutional pre-conditions.

### **(a) Policy Pre-conditions**

To succeed in ECOTECH, members must first and foremost decide that ECOTECH is something very important, and they want it up there with other goals of APEC. We know that ECOTECH has had an unpleasant start, where its existence today is a legacy of a bitter fight to define a proper role and mandate of ECOTECH in APEC. Despite apparent support or pledge of support that ECOTECH has received from practically all members in the last few years, there have been occasions where some members have shown reluctance to give ECOTECH the same attention they have given to TILF. This reluctance, sometimes even annoyance, at the attention given to ECOTECH hinders the smooth operation of ECOTECH. Movement or progress of ECOTECH activities or initiatives is often stalled or slowed through this non-fulfilment of this policy pre-condition. Without this genuine policy support, ECOTECH will always face problems that affect its work and its success.

### **(b) Institutional Pre-conditions**

For some members, policy pre-conditions are not a major problem. What is more important and crucial to them is the fact that they are 'not ready' to accept the APEC Principles and to participate fully in the liberalisation of trade and investment that defines the nature and characteristics of APEC. ECOTECH could be looked upon as a means to prepare these members to achieve the ends of freer trade and investment.

As mentioned earlier, there are some important conditions that a new member must have in order to succeed in APEC. One is the minimum level of economic development, and the other is minimum level of political development. We now have more to say on this. Recently this concept of minimum requirements for a country or economy to join a free trade system like APEC has received attention from APEC's

sister organisation, the Pacific Economic Cooperation Council (PECC). Traditionally, PECC has always been about trade as a main form of economic cooperation in the Pacific region. Then many other activities were conceived and acted on by PECC members. Chief among these were activities on financial management, human resource development, city and urban development, transportation, telecommunications, energy, and so on. There are a great deal of similarities between activities within PECC and within APEC. So, when PECC decided to streamline its own activities to make PECC more effective and more manageable, we in APEC can learn something from what PECC has done.

As a result of this institutional restructuring, PECC activities are now divided into 3 groups, namely trade, finance and community building. The first two groups are easy to understand as they deal with traditional subjects of free trade and removal of trade impediments, and financial matters that are associated with such pattern of trade. The third group, community building, risks being looked upon as a basket case where any non-trade, non-finance matter will be thrown in here. But in the mind of the PECC Vision Group who were tasked to plan for these changes, this is not the case at all. Indeed, community building is something that could define sustainable nature of regional grouping such as PECC, or even APEC for that matter.<sup>7</sup> In this sense, community building in PECC is analogous to ECOTECH in APEC. However, while the concept of community building is important for the long-term development of PECC, APEC, or similar forums or organisations, it is not what activities should be included within this community building, or what should be the concrete operational plans for members to arrive at the desired community building.

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<sup>7</sup> Hadi Soesastro who is a member of this PECC Vision Group is probably the architect of this community building concept. In his various writings about APEC (for example, Soesastro, 2002), Dr. Soesastro often said that APEC was first and foremost about community building, which was often overlooked or ignored by those obsessed with trade liberalisation, which was only one aspect of the APEC agenda.

Building on the rough concept of community building proposed by the PECC Vision Group, David Parsons, the Director General of PECC, succeeded in formulating an operational plan for community building in PECC. His plan consists of three blocks that enable or prepare a new or developing member to reach the state of preparedness or maturity necessary to be a successful member of PECC. In other words, these three blocks have become crucial building blocks that allow these developing members to catch up with more developed members. These 3 building blocks are:

Block 1: Physical infrastructure

Block 2: Human infrastructure

Block 3: Organisational rules that bind Block 1 and Block 2 together

There is little need to explain the necessity of Block 1 as an institutional pre-condition that any country must satisfy or acquire before doing anything else. The availability of such physical infrastructure as roads, ports, utilities and communication systems, and so on is part and parcel of the requirements for successful modern trade and development. Shortage or inadequate supply of this physical infrastructure hinders any attempt to build viable and sustainable community. But the existence of Block 1 without the people in the country knowing how to use them effectively and efficiently will not lead to any productive outcome. Therefore, Block 2 of community building requires that people are equipped with human infrastructure. This is synonymous with people having adequate human capacity to undertake what is necessary to engage in free trade and investment. Education, skill training, healthy bodies and minds are all included in this Block 2. Again, for Block 1 and Block 2 to work in unison with each other requires a set of organisation rules that bind physical and human infrastructure together. These organisation rules include democracy and existence of freedom, rules of laws and legal systems that guarantee fair-play and acceptable conflict resolution,

transparency, and the facilities for public and private sectors to work effectively together. This is Block 3 of institutional pre-condition that is necessary for a community that supports free trade. With these three building blocks together, the country or economy will be ready to take on the requirements for free trade and investment.

#### **4. What Need to Be Done?**

It is now quite obvious that different APEC members will be in different positions to participate in the APEC and ECOTECH processes. For those economies that are more developed, they are more likely to be in a position to satisfy all pre-conditions that will enable them to succeed in participating in ECOTECH activities without really trying. For those economies that are less developed, the possibility of having satisfied all pre-conditions may be less, and they have to work harder to succeed in ECOTECH activities. There is a likelihood that more developed members could help speed up the outcome of the APEC process by extending their technical or financial assistance to less developed members, but this is done only through a spirit of cooperation rather than through a patron-client relationship. In other words, more developed members will benefit more from working and trading with more able developing partners, whereas these less developed partners will strive to increase their own capacity and capability, and resolve their own economic weaknesses first before turning for external assistance. Upon this concept, ECOTECH will never turn into an aid-giving and aid-receiving activity unless both parties have agreed to do it that way for their own mutual interests and benefits.

Under the above circumstances, what could be substantive areas of activities that APEC members could be engaged in in ECOTECH? In fact, this question becomes irrelevant because with all members subscribing to the APEC Principles and having basic orientation toward fulfilling policy and institutional pre-conditions, activities after activities could be conceived that are qualified under ECOTECH banner.

Community building activities discussed above would provide numerous candidates for ECOTECH activities for the APEC community. Formally, APEC leaders have already classified ECOTECH activities into six areas where members could mix and match these areas to suit the economic mood and currency at the time. There is no limitations to members varying the priority of these themes from year to year. Or to find a new theme that is of greater interest and economic impact. Or to engage outside organisations, those non-government organisations in the civil society, to work on a certain policy issue that both are interested in. The possibility for substantive activities under ECOTECH goes on and on.

Perhaps one of the most convenient sources of ECOTECH activities is none other than the EAPs. It may be true that the records of members' EAPs during the past two years may not look impressive in terms of the usefulness for best practices among other APEC members. But that could be because many members are still not certain about the true nature of this EAP. Contrary to the misconception of some members that EAPs must necessary be collective in nature, the EAP is basically an individual action plan. Each member will look inside its own economy, to locate its weakness and tries to correct it, or find out its strength and tries to make it stronger. It is easy to do this alone, but if the same problems are found in other economies as well, then some collective efforts could be created. EAP is a gem that can be cut in a hundred of ways depending on the skills and imagination of the cutter. It will be a pity to throw away this gem just because, in its uncut form, it looks like a worthless stone.

Recently several enterprising APEC members have tried to establish interesting projects that involve several sectors as well as several members. I can recall two projects that I have been involved in. One is the project by the Thai APEC Study Center in Bangkok to invite several public and private organisations that are involved in various aspects of international trade of Thailand to try to find out ways and means to make the full use of trading opportunities. This was called 'How to Make ECOTECH Come True' Project, and the result of a national workshop had shown that many parties involved in the international trading system



of Thailand lacked sufficient knowledge of the English language for a more successful deal, lacked sufficient negotiation skills to negotiate for a better deal, and lacked the technical and scientific skills to counter non-tariff barriers of its trading partners based on technical and scientific reasons. This opens ways to correct appropriate trading weaknesses of Thailand. The other is the City Partnership Project by the US National PECC Committee where up to four medium size cities in the APEC will be set up to learn from one another on the strengths and weaknesses of city management. Best practices from more developed cities in the region will be observed, with a possibility of private sector and international financial organisation (such as the World Bank and the ADB) involvement in improving city management and development through necessary loans and grants.

## **5. Summary, Conclusions and Policy Recommendations**

In this paper, I have tried to show that success in ECOTECH could be easy if members have the right attitude to tackle the problems. First of all, all members must the right perception toward ECOTECH in APEC and are willing to follow through with their policies. Once this is done, the making up of the deficiencies in institutional pre-conditions become easier. I have talked about the three building blocks that are used in community building in PECC that can also be applied in APEC to boost ECOTECH readiness for freer trade and investment. I have argued that if members recognise the necessities of the APEC Principles and the adoption of community (or capacity) building blocks, they will enter into the areas where there is no shortage of ideas how to create ECOTECH activities. The EAP is used as an example how this is the case, that individual actions on ECOTECH matters, not just human capacity building currently being experimented, could lead to continuous new and exciting ECOTECH activities.

It goes without saying that to achieve the above success in ECOTECH, several changes must take place. Elsewhere many have argued that the present organisation that runs the ECOTECH agenda in APEC, that is the ESC, is no longer effective in its present form.<sup>8</sup> It should be quickly re-established as a committee with a wider authority to coordinate works of other APEC such as various APEC Working Groups. There is also widespread agreement that the APEC Secretariat in its present form is inadequate to cope with the demand of the APEC process and activities of today. An expanded APEC Secretariat, with a changed structure such as long-term professional manager and several professional, non-seconded, technical staff to undertake evaluative, analytical as well as advisory functions could be a possible solution. This expanded Secretariat could take the form of same organisation with enlarged staff, or a new organisational setup being added into the original structure. For example, a separate APEC Institute could be set up as a research arm (or think-tank) of the APEC Secretariat to carry out specific duties of coordination and evaluation of ECOTECH projects across APEC members and forums, monitor and digest members' EAPs and suggest improvement and follow-through, works with the BMC to give more proper assessment of research proposals, and so on.

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<sup>8</sup> See, for example, Medhi (2002), Elek (2002), Feinberg (forthcoming).

**Box 1: The APEC Principles**

It is difficult to describe the nature of APEC in just a few words. It is not an economic grouping in the same mould as the European Union, or an economic organisation like the World Trade Organisation, or a specific free trade area as the North American Free Trade Area (NAFTA). It has elements of each of the above, yet has maintained its unique character and identity. Perhaps, APEC is an experience that is better understood from its evolution from an idea of a possible trade bloc to a voluntary trading association. And perhaps the following three principles of APEC could describe the true nature of APEC: the spirit of APEC, APEC Spiritualism, and Esprit de Corps of APEC.

**(a) The First Principle: the Spirit of APEC**

The circumstance leading the conception of APEC was that, in 1989 when Australia conceived the idea of APEC, the Uruguay Round of GATT negotiations was under an eminent danger of collapse due to inability of its members to agree on several important basic issues including the treatments of agriculture and trade in services. If this historic trade negotiations should fail, it could bring about a trade war between Asia Pacific and Europe. At the extreme, APEC could be formed as such trade bloc that will challenge the European Single Market or European Union, and the impending trade war could be a messy one. Fortunately the Uruguay Round was successful and a possible trade war was averted. APEC would not be formed as a trade bloc but as an 'open economic association' (Yamazawa, 1992). It is open because it does not seek to discriminate against non-members. It is economic because it deals basically with economic growth, trade and investment. And it is an association because participants do not cede powers of regulation or enforcement to any supra-national regional institution.

There was some apprehension about the nature of APEC at first, especially among some ASEAN leaders, but this apprehensive soon faded when it became clear that APEC would aim for ‘open regionalism’ and would not become a trade bloc. The Second APEC Summit in Bogor, Indonesia had produced the Bogor Declaration that definitely defines the future form of APEC, that APEC will be a group of countries and economies which had set the goal of achieving free and open trade and investment in Asia Pacific by the year 2020. It was indeed a bold pledge, or commitment which enhanced the image of APEC further.

Although some APEC members still raised some contentious points about the adoption and interpretation of the Bogor Declaration, they were in no way affect the general magnanimity of this declaration. Not only that tariffs will be reduced and trade and investment liberalised, future APEC will also call for economic and other trade and investment facilitation, and economic cooperation in more than 10 areas of economic work and social activities.<sup>9</sup> It must be the enthusiasm of most economic leaders of APEC to want to see the continuing momentum of APEC that they came out strongly and positively in support of APEC as portrayed in the Bogor Declaration. And they were willing to do many things to set examples for others to follow. These individual voluntary actions (such as tariff cuts, or participation in work programs) serve as ‘peer pressures’ that eventually drive other members to do the same or at least not to obstruct the move.

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<sup>9</sup> These 13 areas of work programs include (1) human resource development, (2) industrial science and technology, (3) small and medium enterprises, (4) energy, (5) transportation, (6) telecommunications and information, (7) tourism, (8) trade and investment data, (9) trade promotion, (10) marine resource conservation, (11) fisheries, (12) agricultural and technical cooperation and (13) economic infrastructure.

Therefore, voluntarism and unilateralism became the First Principle that APEC members willingly agree to follow. The contrast between the World Trade Organisation (WTO) and APEC is clear. The WTO is a rules-based organisation where agreements, once reached, are binding to all members, with provisions for penalties if members do not honour them. APEC is a principles-based organisation with non-binding agreements, but agreements are eventually expected to be followed voluntarily and unilaterally. This shows a true spirit of open regionalism because most-favoured-nation concession is given not to just APEC trading partners but all who are trading with APEC members. It is believed that this principle is more effective than agreement by force.

**(b) The Second Principle: APEC Spiritualism and Faith in Free Trade**

APEC members agree to join the association upon a basic conviction about the benefits of free trade and investment. Without this conviction APEC is no different from many free trade agreement areas that crop up now and then throughout the world. The faith in free trade is so basic that many call this quality APEC spiritualism, which has become the Second Principle for this organisation.

It is not difficult to understand why APEC members have faith in free trade and market mechanism. The established Theory of Comparative Advantage which has withstood the test of time since the 18th century has shown that if countries are allowed to trade freely with one another, a pattern of trade will emerge where countries will specialise in the production of goods which they have comparative advantage (mainly in terms of costs), and the trade between these countries will necessarily bring about mutual gains from trade. It is possible, of course, that the process

by which a country will have to make adjustments to find its own comparative advantage may cause pains and losses in the short and medium terms, but in the long-run, benefits and gains from free trade will more than make up for the short-term losses. Such was an indication of the spiritualism of APEC.

Combined the First and Second Principles together, we could easily give answer to the question: Why is that a voluntary and unilateral trade liberalisation is to be worshipped more than trade and exchange regime based on reciprocity? For one thing, to be able to excel in the most cost-productive technique of making things without the undeserved benefits of protection from competition would always put that producer ahead of everyone else, and he can enjoy all the comparative and competitive advantages from trading with anyone. So, reducing the protective walls of tariffs will bring forth the long-run benefits of the economy. Of course non-market arguments could be found to counter the impending benefits of free trade and non-distorted production techniques, the final proof may have to come from empirical testing or studies. This, the free trade school often wins.

### **(c) The Third Principle: Esprit de Corps in APEC**

It is often categorised that APEC is about 3 economic activities: trade and investment liberalisation, trade and investment facilitation, and economic and technical cooperation. The first two activities are often referred to as TILF (for Trade and Investment Liberalisation and Facilitation) activities, whereas the third activities are known as ECOTECH (for ECONomic and TECHNical cooperation) activities. The first two principles govern TILF, whereas the Third Principle governs ECOTECH.<sup>10</sup> This is the spirit of

<sup>10</sup> A newer metaphor likens the nature of APEC to the two wheels of a bicycle where the front wheel of TILF will lead to free trade while the rear wheel of ECOTECH help push the bicycle forward.

cooperation that exists among member economies both through state policies as much as through personal contacts of APEC ministers and officials while carrying out their duties.

In the beginning, it was often believed that ECOTECH existed only to serve the fundamental objectives of free trade and investment. Later, ECOTECH has assumed a life of its own. It now means more than just modality of preparation for free trade and investment, it also means a separate, stand-alone, endeavour to develop each individual economy into a self-sustaining and economically-sustainable entity. A new way of thinking has replaced the narrow, self-serving view of free-trade-at-all-costs. What good is free trade if one partner gains at the expense of the other partner? Free trade should bring in mutual net benefits, not the gains to one and the losses to the other. No country or economy would willingly sacrifice its own economic welfare simply for the benefits of others. But this country or economy may willingly sacrifice some of its economic welfare in the short run (through the pains of policy reform and adjustment, and other forms of preparation) in exchange for efficiency and equity gains in the long run. So, to help these economies to attain the level of development that trade and investment with one another will begin to produce mutual net benefits is part and parcel of the new thinking on the meaning of ECOTECH.

There are several ways in which the above can happen. Member economies may start with economic development through human resources development and human capacity building. They learn best practices from other more successful members, and adopt the accepted standards and conformance on various procedures. Technical assistance, even financial assistance, may be offered and received on the conditions that they lead to increase in economic

capacity and readiness to trade and invest freely with one another. If nothing else, members can behave as a cheer leader, urging their colleagues on, giving encouragement and moral support for others' attempts to improve their own economic systems. In some cases, peer pressure exists to constantly remind non-conforming and non-performing members to go along with the rest of the group. This is the Esprit de Corps of APEC that has become very important principle that may sustain the cohesion of APEC in the years to come.

**Source:** Excerpt from the paper, 'How can the APEC Process Helps City Development? A Personal Observation', paper presented at Concurrent Session 7: Diversity and Sustainability in Cities of the Pacific Rim, at the 14th General Meeting of PECC, in Hong Kong, 29 November 2001

## **Box 2: Some Important Pre-conditions for the Success of APEC**

A few years ago when four less developed countries in Southeast Asia, Cambodia, Lao PDR, Myanmar, and Vietnam, were about to be accepted as new members of ASEAN, I was asked how they could also prepare themselves to become new members of APEC in the future. I gave my answer in a paper, the Current Development in the Greater Mekong Subregion (GMS) in the APEC Context'. Below is an excerpt from that paper that addresses the above question.

"...The new or prospective new members of APEC may be required to fulfil the following conditions before being admitted to full members. These conditions are as follows:



**(a) Minimum Level of Economic Development**

There are no specific requirements that any economy must reach a certain level of economic development before it can be considered or become a new member of APEC, and in fact the current membership setup in APEC is quite diverse with the two most powerful economies in the world as members (the US and Japan); the largest economy in terms of population but a developing economy in terms of its level of economic development (China); two city-state type economies but quite developed (Singapore and Hong Kong); and an OECD member which has the smallest number of population (New Zealand). But all members of APEC have at least one thing in common, that is all have adopted the market approach to economic development and management. All have striven to reach or maintain a high level of economic well being or standard of living. All have engaged or attempted to engage in economic reforms that will reduce the level of economic distortions in the economies and increase the efficiency and competitiveness of such economies. The sufficient level of economic development may also imply the existence of economic institutions that are necessary for the type of economic activities required in APEC such as modern financial and payments systems, transportation and communications networks, capable bureaucracy and generally literate or well-educated population. Economic relationship between very rich and very poor partners may not be very productive and could evolve into the situation of patron-client relationship rather relationship among equals. And the impact of trading relationship between large and small members could create a well-known terms-of-trade effect where the larger trading partners reap all the gains from trade through their sheer size of products and market power. A minimum level of economic development may also imply that some regulatory measures to soften the adverse impacts due to size could be more easily implemented or followed.

**(b) Minimum Level of Political Development**

Again, there are no specific requirements that each economy or country must reach a certain level of political development before being considered for an APEC membership. Here the minimum political development is even more difficult to define than minimum economic development where some summary measures of economic development such as per capital GNP, total value of trade, external reserves can be used for such purpose. Democratisation is often used as a minimum requirement for political development, and this could mean frequent, regular, open and transparent elections of public offices. But minimum political development is more than just elections. It may have to include the respect of the basic human rights, the rights of minorities, the genuine belief in the rule of law, the opportunity for popular participation in decision-making process, the accountability of policy-makers or public-office holders, and so on. APEC community probably would not tolerate the use of power to solve political conflicts, the failure to honour democratic political commitments or obligations, and the inability of the political system to consider issues that may have cross-border or supra-national political implications. Perhaps political education alongside general education may be necessary for those countries in the GMS which may still face with the problems of inadequate political development.

It may be added that these pre-conditions have been prescribed after the most important pre-condition, the acceptance of the APEC Principles as stated in Box 1, has already been fulfilled.

**Source:** Excerpt from the paper, "Current Development in the Greater Mekong Sub-region in the APEC Context", paper presented at the International Conference on The Greater Mekong Sub-region: Political and Security Implications for ASEAN, organised by the Cambodian Institute for Cooperation and Peace (CICP) and the Friedrich-Ebert-Stiftung (FES) in Phnom Penh, Cambodia, 4-7 July 1999.

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## **8. THE ENGAGEMENT OF INTERNATIONAL FINANCIAL INSTITUTIONS (IFIs) IN APEC'S KNOWLEDGE-BASED ECONOMY (KBE) ACTIVITIES\***

**By Medhi Krongkaew\*\***

### **Abstract**

This paper argues that modern economies in the increasingly globalised world must be able to make better uses of existing knowledge and technology, and able to adapt, adopt or generate their own knowledge or technical know-how in order to survive and prosper. But while various attempts to use various tools such as the Information and Communication Technology (ICT) to make the economy a knowledge-based economy (KBE), this knowledge should be made to lead to greater trade and investment, increased economic welfare and reduced poverty as well. It is through this KBE activities to increase trade, investment, welfare and reduce poverty that provide necessary linkage for APEC economies or its various forums such as the ESC to work with such international financial organizations as the World Bank, the Inter-American Development Bank, and the Asian Development Bank because these IFIs also have the same objective.

However, the existing concern of these APEC economies or forums is how to work together with these IFIs for the mutual support

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\* Revised version of the paper presented at the Third ECOTECH Committee (ESC) Meeting in Phuket, 17 August 2003.

\*\*Professor of Economics, School of Development Economics, NIDA. I would like to thank the National Electronic and Computer Technology Center (NECTEC) of Thailand in supporting my work in this area. I also would like to thank Khun Pisan Manavapat, Director-General of the Department of International Economic Affairs, Ministry of Foreign Affairs, Dr. Thaweesak Koanantakool, Director of NECTEC, and representatives of New Zealand and the United States in the ESC for their useful suggestions and comments.

and cooperation of their activities. This is not difficult as these IFIs are reaching out to work more closely with other organizations or institutions having the same objectives. What have been undertaken within the APEC process may also have indirect impacts on poverty reduction such as the 2000 Brunei Declaration would aim at increasing the number of internet users in the less developed APEC region which could result in their ability to earn more income. Or the successful implementation of the 'E-APEC Strategy' which will strengthen market structure and institutions, and enhance human capacity building and entrepreneurship for better economic livelihood. APEC economies or forums may have to put more efforts on the use ICT to bring about increased economic welfare and poverty reduction through greater productive efficiency. The opportunity to engage the IFIs and to work more closely with them should enable the APEC process to reach the Bogor Goals in the APEC region more quickly.

## **1. Introduction**

Since the year 2000, many innovative economic and technical cooperation (ECOTECH) activities have taken place under the initiatives, leadership, and supervision of the SOM Committee on ECOTECH (ESC). In 2001, for example, the ESC was able to encourage APEC members to prepare, on voluntary basis, their selected individual action plans on human resources development to be called ECOTECH Action Plans (EAPs). The ESC was able also to establish the Human Capacity Building Coordinating Group (HCBCG) to prepare the first Human Capacity Building Strategy Report for APEC SOM. However, these activities fall under what are generally known as 'Type I Activities', that is activities that are initiated and implemented within the realm of APEC inter-governmental agencies and fora. In other words, these activities are what APEC officials and those who are formally related to it are doing with respect to ECOTECH agenda. Even in 2000, it was already decided this was not enough. ECOTECH activities should also include 'Type

II Activities' where organisations or institutions outside proper official APEC governmental networks are invited to participate or engage in joint activities. In the beginning, many now well-known organisations such as the APEC Business Advisory Council (ABAC), the Pacific Economic Cooperation Council (PECC), and the APEC Study Centers (ASCs) have been invited to get involved in APEC ECOTECH activities, but now the list of important outside participants include several international financial institutions (IFIs) such as the World Bank, the Inter-American Development Bank (IADB), and the Asian Development Bank (ADB).

In a way, the engagement of these IFIs could be looked upon as a natural consequence of an event that is bound to happen sooner or later. The above named IFIs have been active in development lending within the Asia Pacific region for much longer than the life of APEC. But, as both APEC and these IFIs aim at the increased welfare or economic well-being of the people in the region through trade and investment, and general development efforts, the need to work together becomes even more imperative. However, some common working relations or *modus operandi* need to be established before such fruitful engagement could take place, and this may not be easy. For example, Andrew Elek, an expert on APEC, once said that, while the ADB and the World Bank were willing to become involved in principle, they could not be expected to respond to a 'shopping list' of hundreds of activities.<sup>1</sup> Engaging these institutions effectively will require a much sharper definition of priorities for capacity building.

In the four areas that form the short list of ECOTECH priorities endorsed by APEC SOM this year, namely the integration into the global economy, counter-terrorism capacity building, promoting the development of knowledge-based economy (KBE), and addressing the social dimension of globalisation, this paper addresses the issue of the linkage between third theme, promoting the development of KBE, and the

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<sup>1</sup> Andrew Elek, 'Promoting ECOTECH in APEC: Bridging the Digital Divide and Other Issues', Issues Paper prepared for the Foundation for Development Cooperation (FDC), Beijing, April 20, 2001.

main focus of activities of the three well-known IFIs, namely the WB, IADB, and ADB. The next section, Section 2, takes a brief look at the nature and requirements of a KBE in APEC. Then Section 3 analyses the main missions of the said IFIs to see how APEC can interest them to get involved with APEC activities. Section 4 will attempt to establish a common ground for such a linkage, with some samples of activities. Finally, Section 5 concludes with recommendations on the what need to be done next.

## **2. The Nature and Requirements of a KBE, and Experience in APEC**

There is already very rich knowledge and understanding of KBE in APEC. Since 2000, the APEC Economic Committee (EC) has conducted successive studies on KBE and its derivatives (such as problems and prospects of the New Economy and Digital Divide).<sup>2</sup> These studies have formed a basis under which various APEC Working Groups and forums have prepared their project proposals, and have these projects funded by the APEC Central Funds and other funding sources in the last several years.

In Box 1, the APEC Economic Committee has attempted to give a simple explanation to the meaning of a KBE. It is obvious that a KBE is an economy which needs and uses knowledge as the main driver of its growth and expansion. It has further clarified that this knowledge is more than just ‘technological’ knowledge but includes cultural, social, and managerial knowledge as well. However, what lies underneath this concept of knowledge did not get mentioned in the box, but appeared in other part of the EC 2000 Report. In other words, the most important precondition for a KBE is basic education. This is what lies underneath the fundamental concept of knowledge. As the EC puts it, basic education

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<sup>2</sup> The three successive studies by the EC are, for 2000, ‘Towards Knowledge-Based Economies in APEC’; for 2001, ‘The New Economy and APEC’; and for 2003, ‘The New Economy in APEC: Innovations, Digital Divide and Policy’.



is a long-term investment, without which a KBE is unsustainable. It has further elaborated that in a fully developed KBE, high quality education services that are both widely available and widely used are a major priority for the economy and society, of which without this background it is virtually impossible to build the other elements of the national knowledge base (such as R&D) to the level needed by a KBE (see EC, 2000, p. xi).

Concurrently with the achievement in quality basic education, a KBE needs the use and mastery of information and communication technology (ICT). Again as the EC puts it, ICT can be seen as an enabling technology for a KBE. Advanced information systems bring down the cost of information, facilitate access to wider pools of information, and promote the spread of ideas. Moreover, a fully developed KBE has an advanced communications network and a policy and regulatory framework that encourages competition and supports the development and use of information hardware and applications. Finally, in order for a KBE to flourish, the social, political, economic and legal framework of the economy must support an open environment for trade and investment. Some even go further as to say that a KBE needs more than an open trade and investment system; it needs an open society where the creativity of the free people is at the heart of a productive KBE.

Beyond the above preconditions, several areas of activities in a fully developed KBE could be conceived. The APEC EC recommends four areas in which an advanced KBE could get involved in.

- (1) Innovation systems: In this economy, innovation and technological change are pervasive, and are supported by an effective national innovation system (that is, a network of institutions in the public and private sector whose activities and interactions initiate, import, modify, and diffuse new technologies and practices).
- (2) Human resources development: In this same economy, human resources development is also pervasive. Education and training are of high standard, widespread and continue throughout a person's working life.

- (3) ICT infrastructure: An efficient infrastructure operates, particularly in ICT, which allows citizens and businesses to readily and affordably access pertinent information from around the world.
- (4) Business environment: This is the economy where the business environment (that is, the economic and legal policies of government, and the mix of enterprises operating in the economy) is supportive of enterprises and innovation.

Table 1 sums up the policy framework that facilitates progress towards a KBE. Drawing on the four policy directions set out above, the EC further suggests directions of APEC action for each area that could be pursued through relevant APEC technical working groups and other APEC forums as follows:

### **Business Environment**

The following three areas could be considered:

- (a) Trade, Investment and Legal Systems: pursue multilateral agreements for FDI facilitation in the region, improving the level of automation of investment-related documentation, create an investment promotion body to generate and distribute ‘best practices’ in legal systems;
- (b) E-Commerce: improve the level of related infrastructure in each economy, establish and coordinate legal systems pertaining to e-commerce, establish ‘e-payment systems’;
- (c) Policy Coordination: improve the computerisation level within APEC economies and build a computer network among governments, improve efficiency in contents management through standardisation of ICT area, establish a broadband network in APEC using the World Wide Web, coordinate policies for promoting Small and Medium Enterprises (SMEs) in APEC economies, establish programs (including education and training) to assist developing member economies to move towards KBEs.

### **Innovation Systems**

Challenges which APEC members economies can address collectively include: cooperating in basic research, identifying and disseminating non-technology-based knowledge of developing economies to promote innovative systems of more developed economies, sharing best practices in strengthening innovation systems, enhancing networking between firms and public institutions, providing the right climate for business innovation, and creating an APEC system for promoting flows of knowledge about innovations and innovation systems.

### **Human Resource Development (HRD)**

Potentially fruitful directions in which APEC's cooperative actions in HRD could be reinforced include: enhancing HRD assistance in developing economies through the internship of young IT experts from other economies; increasing assistance in training by large private companies (the 'Fortune 100 in APEC'); establishing a labour market information system and fostering linkages between learning and work, improving skill development through cooperation and participation; expanding e-education programs; and strengthening linkages between the APEC working groups on HRD and services.

### **Information and Communication Technology (ICT)**

In order to close the knowledge gap among the APEC member economies, specific measures of cooperation in the area of ICT would be required, including: production of APEC ICT-related statistics; provision of a database of country-specific information; promoting the networking of medical and educational institutions; and effective propagation of the results of projects undertaken by APEC Telecommunications Working Group (through the proposed Knowledge Clearing House).

In the past few years, several APEC working groups and forums have undertaken several KBE projects. As can be seen from Table 2, most of these KBE activities were undertaken by the Telecommunications Working Group (12 out of 31 projects), followed by the Committee on

Trade and Investment (CTI) (5 projects), the Human Resources Development Working Group (4 projects), the Transportation Working Group (3 projects), and so on. The pertinent question to be asked now is: How these activities can be linked up with the activities of the aforementioned IFIs? If such linkages cannot be established, it will be difficult to generate these Type II activities between these IFIs with the APEC process. It is imperative, therefore, that we understand the core activities of these IFIs before we consider any possibilities of their engagements.

### **3. Current Missions and Activities of IFIs**

Of the three IFIs mentioned at the beginning of the paper, the International Bank for Reconstruction and Development (IBRD) or the World Bank (WB) is the most well known. And as an international development bank, what the World Bank does is also what the other two international development banks do, that is to mobilise savings of richer countries and lend it to poorer countries for investment in various sectors that will bring about faster and higher rates of economic growth and expansion, and subsequently greater income and welfare of their peoples. There are more IFIs that we could talk about, such as the International Monetary Fund (IMF), or the African Development Bank (AfDB), but since these IFIs either are not long-term development banks, or lie outside the general interest areas of the Asia Pacific, they will not be discussed here.<sup>3</sup>

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<sup>3</sup> The main reason the IMF is not included in the discussion is because unlike the WB, the IMF provides short-term credit for member countries suffering from balance-of-payments problems. Although recently the IMF has extended its role beyond its short-term provision of balance-of-payments credit into development issues such as poverty reduction as well, there is no general agreement that this is appropriate. In fact, there is a great deal of debate on the role of the IMF vis-à-vis the World Bank on the handling of the recent East Asian financial crisis. Until there is greater acceptance otherwise, the role of the IMF is still limited to balance-of-payments problems financing rather than development financing.

It is not far from the truth to say that the recent financial and economic crisis in East Asia in late 1990s has helped reshape the goals and objectives of these IFIs. Despite the low interest charges that these international development banks levied on borrowers, these international development banks do not operate differently from any commercial banks in the sense that, finally, the whole operation must bring in profits. The performance records of these international development banks especially the World Bank have always been successful in the last several decades, yet several developing countries especially in Africa continue to suffer from lack of development despite high level of indebtedness. Even in the fast-growing and more prosperous East Asian region, the severe economic and social problems brought about by the financial and economic crisis in the late 1990s have prompted or forced these international development banks to reassess their goals and objectives. And almost by coincidence, they have arrived at one common and most important objective of their missions and operations: economic well-being of the people of which poverty reduction is a major component, along with other development goals such as sustainable economic growth and environment. To prove this point, we can look at the statements of missions of each of these international development banks.

### **The World Bank**

Very succinctly, the World Bank states that its mission is to see a world without poverty. More exactly, the World Bank mission is to reduce poverty and improve living standards through sustainable growth and investment in people.

### **The Inter-American Development Bank**

The two main objectives of the IADB as set out in its institutional strategy are poverty reduction and social equity, and environmentally sustainable growth.

### The Asian Development Bank

Equally succinct, the ADB's overarching goal is to reduce poverty and improve the quality of life of people in the Asia and Pacific region.

The arrival of this most important objective of economic well-being of the people (including poverty reduction and its subsidiary objective of reduced income inequality) is not by joint agreements of decisions, but from individual perception of the importance of this economic and social happening. Each organisation has also developed similar approaches or techniques that are likely to bring about the desired result of increased economic well-being and poverty alleviation. As the World Bank is the most established of these IFIs, perhaps it is appropriate to understand the approaches or techniques to increase economic well-being including poverty reduction of these IFIs by looking at what the World Bank has done in the past few years.<sup>4</sup>

First of all, the World Bank strongly believes that poverty reduction depends very much on sustained economic growth, and sustained economic growth is likely to be an outcome of two development efforts: (1) the creation of good investment climate whereby the private sector could invest and produce efficiently, in a way that generates jobs and productivity growth,<sup>5</sup> and (2) the empowerment and investment in the poor people so that they can participate in growth.<sup>6</sup> Along these two basic strategies, the World Bank can and do perform three functions:

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<sup>4</sup> Information for the following account is gathered from Ian Goldin, Halsey Rogers and Nicholas Stern in 'The Role and Effectiveness of Development Assistance: Lessons from World Bank Experience', a research paper from the Development Economics Vice Presidency of the World Bank, June 2002.

<sup>5</sup> According the World Bank, the investment climate consists of all the factors that most influence private-sector decisions: macroeconomic stability and openness, governance and institutions, and infrastructure. See Goldin, Rogers and Stern, 2002.

<sup>6</sup> Whereas good investment climate provides general conditions for poverty reduction, the government need to target poverty more directly, notably by equipping poor people with the tools necessary to contribute to growth, such as education and health, and by giving them access to infrastructure and financial services. Again according to Goldin, Rogers and Stern (2002), people are empowered when they are given the ability to shape their own lives, whether through greater capabilities or through participation in decision-making.

(a) provide development loans that aim towards the above two development efforts, (b) provide grants that will do the same as in (a), and (c) provide expertise through sector studies or analytical work that help the government in question to understand the problems and the ability to solve them. Additionally, another innovative activity by the World Bank recently has been the promotion of Poverty Reduction Strategy Paper (PRSP) whereby each country is encouraged to carry out poverty studies and how to solve poverty problems by engaging all the people in all sectors of the economy, so that once everyone ‘owns’ the project, the incentives to achieve the end results (poverty reduction) are much greater. These changes towards poverty reduction and its allied activities are also clear from the composition of lending categories. As can be seen from Table 3, the reduction in private sector and infrastructure development between 1961/70 and 1991/01 has been most dramatic. And equally dramatic are the increase in lending for human development network, of which education and health are the chief activities.

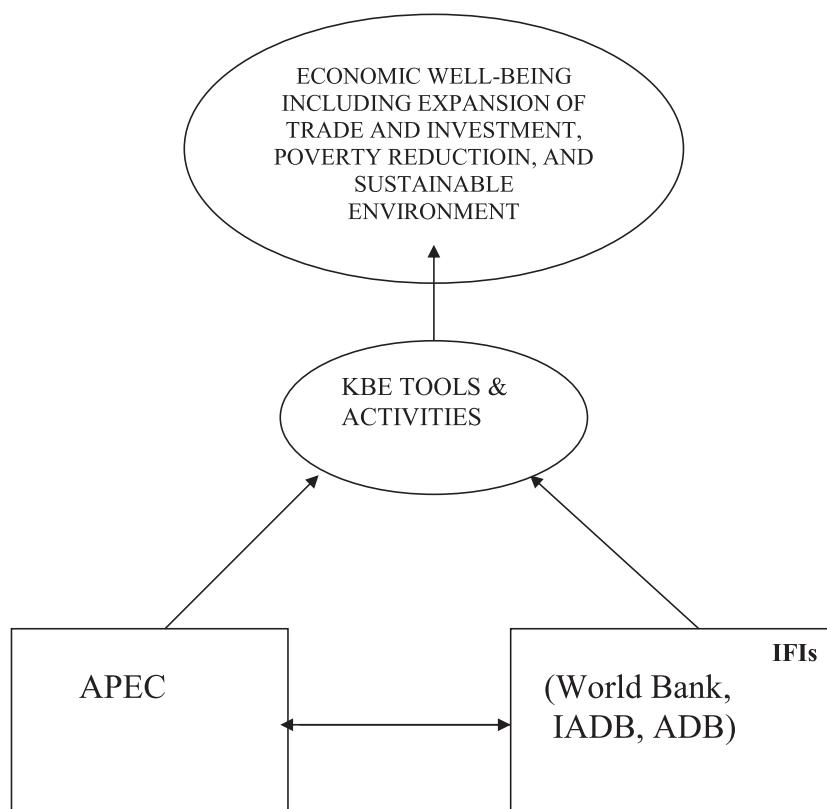
To conclude, the present focus of most of IFIs at least as represented by the work of the World Bank appears to be on one prominent theme of increased economic well-being especially poverty reduction. In APEC itself, it is already well-known that ECOTECH reflects the pursuit of APEC’s common objectives and goals through cooperative activities to attain sustainable growth and equitable development, while reducing economic disparities among APEC economies and improving economic and social well-being. In short, both APEC and most IFIs have the same common goals. The pertinent question is how we can induce the two organisations to work more closely together so as to help accelerate the fulfilment of our goals. This is the subject of the next section.

#### **4. Linkage Between APEC and IFIs**

In Section 2, we have established that we can use, and indeed we have used, KBE tools and activities to achieve the goal of increased economic welfare and well-being of the people in the APEC region. The

use of these KBE tools and activities could be the same means to arrive the same ends of increased people's welfare and well-being. As depicted in Figure 1, economic well-being is set at the top of diagram representing the common goal for both the APEC and the IFI. The horizontal arrow goes both ways between APEC and the IFIs, meaning that both organisations could support each other in their respective endeavour. The arrow then points upward to the same means of the use of KBE tools and activities to eventually achieving the ultimate goal of increased well-being of the people. This may require that we try to understand each other's approaches and activities, and help each other when necessary.

**Figure 1:** Mechanism of Engagement of IFIs in APEC





The next step is to see how each organisation could use KBE tools and activities to promote economic welfare of the people. With the APEC itself, the Economic Committee has already recommended several activities. The following activities undertaken by the ESC and other APEC forums are informative:

(a) The 2000 Brunei Declaration

At the APEC Summit in Brunei in 2000, APEC Leaders had called for a policy framework which will enable the people of urban, provincial and rural communities in every economy in APEC to have individual or community-based access to information and services offered via the internet by the year 2010. And as a first step toward this goal, the Leaders aimed to triple the number of people within the region with individual or community-based access by 2005. This is a very clear indication of how important this ICT is to the life of modern people in the future.

(b) The e-APEC Strategy

In the 2001 Leaders' Declaration in Shanghai we have seen the launch of the e-APEC Strategy which is a forward-looking, long-term and action-oriented plan to do three things: one, to create an environment for strengthening market structure and institutions; two, to facilitate an environment for infrastructure investment and technology development; and three, to enhance human capacity building and promote entrepreneurship. Although it seems that the weight or focus of this plan swings more toward the first objective of economic efficiency in the macroeconomy, the reference to technology development and human resources development especially through ICT is within the purview of economic and technical cooperation (ECOTECH) in APEC, and community building in PECC.

### (c) Other APEC Initiatives

There are several other APEC initiatives that can be qualified as ICT-based activities. The e-commerce activities under the special E-Commerce Steering Group (ECSG) have gone a long way toward trade without paper and trade without paper money. The e-government activities under the APEC Telecommunications Working Group have become widespread which increase the ease and efficiency with which the government can interact with its citizens and taxpayers, and vice versa. Many innovative activities under this e-government can be seen in many economies such as the practice of e-procurement and e-taxation. This year (2003), China and Thailand proposed a project called 'Innovative APEC' with an aim to help develop science and technology intermediary mechanisms within the APEC region through seminars, workshops, networking, training and joint research that will make APEC members 'innovative'. This project proposal has already received approval from the Budget and Management Committee of APEC.

### (d) PECC Initiated Activities

As an official observer of APEC, the Pacific Economic Cooperation Council (PECC) has worked closely with APEC. Currently, many PECC members have been involved in many initiatives or activities that incorporate ICT. For example, Japan PECC has suggested that the PECC Telecommunications and Information Industry Forum (PECC TIIF) be restructured as a new taskforce under the CBF to be called 'PECC Networked Economies Taskforce' or 'PECC Net'. There is another activity organised under the aegis of PECC called 'EduPACT' based in the US which focuses on the promotion of IT literacy and skills in the Asia Pacific region. At the APEC TEL27 just concluded in Kuala Lumpur, one more project was submitted for consideration and was strongly supported. This is the 'E-University Network

in HRD for E-Government Project' proposed by Japan PECC with Thailand as co-sponsor. This project aims to use university network in PECC to help train senior government officials and high-level executives on their capability in implementing e-government activities.

These above activities are basically KBE activities that may contribute indirectly to increased economic welfare and poverty reduction of the people. It is possible that we could design a set of policies or measures that have a direct bearing on, say, poverty reduction among the people. As an example, the National Electronic and Computer Technology Center (NECTEC) of Thailand has recently conceived a project that exactly addresses this issue. It wants to find out how the use of ICT could be made to help several groups of people in Thailand, especially people who live in the rural areas to improve their livelihood and thus reduce their poverty. Table 4 sums up some existing or on-going projects. NECTEC is currently planning to extend its ICT for Poverty Reduction program to cover a much wider group of activities. Once completed, it will be the leader for the use of ICT, not just for the improvement or progress of Thailand as a KBE, but also for the further reduction of poverty in the country. This is the type of linkages that can be generated between APEC members and the IFIs such as the World Bank, the Inter-American Development Bank and the Asian Development Bank.

## **5. Concluding Remarks**

In this paper, we have demonstrated that modern economies in the increasingly globalised world must try to make better uses of existing knowledge and technology, and must be able to adapt, adopt, or generate their own knowledge in order to survive and prosper. But while various attempts to use various tools such as the ICT to make the economy the knowledge-based economy (KBE), one must not lose sight of the fact that the APEC's Bogor Goals must also lead towards increased economic

well-being and poverty reduction among the people. It is through these KBE activities and their ability to lead to increased welfare and poverty reduction that provide the necessary nexus or linkage for APEC economies or its various forums such as the ESC to work with international financial institutions (IFIs) such as the World Bank, the Inter-American Development Bank, and the Asian Development Bank. On the part of APEC, perhaps there is little need to launch a new search for KBE activities that have direct effects on increased economic welfare and poverty reduction as existing KBE activities may already have indirect effects on increased economic welfare and poverty reduction. For example, students who are able to use ICT knowledge and techniques will stand a better chance to benefit more from modern economy, resulting in better income and less chance to fall into poverty. Even easier to see is the case where a disabled person could avoid poverty if he or she is able to use ICT as a tools of employment.

The existing concern seems to be that many APEC forums are uncertain about how to work together with these IFIs. This is a valid concern as the APEC process is just beginning to be exposed to Type II activities with outsiders, and not everyone knows how to go about doing it yet. Equally of concern is the uncertainty of how these IFIs would react once the engagement has been made. However, it is interesting to point out also that there is also a reciprocal gesture from these IFIs to reach out and work more closely with other organisations or institutions having similar objectives. At the meeting in Prague in September 2000, the Board of Governors of the World Bank endorsed a focused set of priorities for Bank global programs, and these are reflected in the criteria for possible Bank action in global public goods:

- That the actions provide clear added value to the Bank's development objectives at the country level;
- That the global actions by the bank catalyse resources and build collaborative partnerships;
- That the Bank actions play to its comparative advantage; and

- That there is an emerging international consensus that calls for global action.

Using these criteria, the Bank has identified five priority areas for global public goods, namely:

- Communicable diseases
- Environmental commons
- Information and knowledge
- Trade and integration, and
- International financial architecture

These priorities and criteria now need to be incorporated by the Bank in a global strategy for the institution that can guide its global programs, much as—at the country level—the country assistance strategy guides its country programs. As is the case at the country level, this strategy needs to evolve in close consultation with the relevant stakeholders.<sup>7</sup>

In all, it can be summarised that there exists an exciting opportunity for the IFIs and APEC to work together for the betterment of the life of the people in the Asia Pacific region and achieving the Bogor Goals. In this particular area of the use of KBE tools and activities, increased economic welfare and poverty reduction could be directly and indirectly effected so that the joints efforts can bring about greater outcome than if each is acting alone. Contrary to what many people might have feared, the relationships between APEC economies and these IFIs have gone beyond the patron-client association or aid donor-recipient makeup. The use of ICT which has become more widespread as a result of recent freer and less restricted trade increases both the capability of the people to be more productive in their livelihood and the efficiency of the system they are living and working in.

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<sup>7</sup> Information from Goldin, Rogers and Stern (2002), pp. 66-67.

**Box 1: What is a Knowledge-Based Economy (KBE)?**

A Knowledge-Based Economy is an economy in which the production, distribution, and use of knowledge is the main driver of growth, wealth creation and employment across all industries.

In this context, being a KBE means more than simply having a thriving “new economy” or “information economy” that is somehow separate from a stagnant “old economy”. In a truly knowledge-based economy, all sectors have become knowledge-intensive, not just those usually called “high technology”.

Important features of an ideal KBE include: an openness to trade, new ideas and new enterprises; sound macroeconomic policy; the importance attached to education and lifelong learning; and the enabling role of information and telecommunications infrastructure.

Note that the knowledge required by a knowledge-based society is wider than purely technological knowledge; for example, it includes cultural, social, and managerial knowledge. The knowledge possessed by an organisation is much more than the information written in its files, and includes its culture, the way in which people interact within the organisation, knowledge about the contacts they use to gain information from outside, and so on. The organisation’s knowledge consists of its capability in integrating information with experience and expertise to take action. This assimilation is no mean feat; as one wit put it: “Today we are drowning in information but starving for knowledge”.

**Source:** Reproduced from APEC EC, ‘Towards Knowledge-Based Economies in APEC’, November 2000, p. vii.

**Table 1:** Policy Framework to Facilitate the Progress Towards a Knowledge-Based Economy

Innovation Systems	Human Resources Development	Business Environment	ICT Infrastructure
- The science system and investment in basic research	- Level of basic education of population	- Regulatory environment	- Investment in ICT
- Promoting R&D	- Pool of scientific and engineering talent	- Intellectual property rights	- Building digital networks
- Diffusion of technology	- Lifelong learning	- Competition policy	- Increased access and use of ICTs
- M&E investment	- Job training	- Role of the financial markets and corporate governance	- Growth of electronic commerce and enterprises
- Openness to international trade and investment	- Organisational innovation	- Internationally competitive personal and corporate tax rates	
- Science/industry links	- Continuing education	- Macroeconomic fundamentals	
- Networking and collaboration	- Distance education	- Physical infrastructure	
- Financing of new technology-based firms			
- Clusters			

**Source:** Adapted from the Economic Committee (EC), Towards Knowledge-Based Economies in APEC, Report by APEC Economic Committee, November 2000.

**Table 2:** Selected APEC Projects on Knowledge-Based Economy

No.	Project Number	Project Name
1	TEL 03/1998	Interactive Medical Curriculum Pilot Project
2	TEL 04/1998	Telecommunication Training Pilot Project
3	TEL 01/1999	APEC Distance Learning Project
4	TEL 03/1999	Symposium for Collaborative Strategies for Multimedia and World Wide Web Skills Development
5	TEL 02/2000	Interconnection Resources Project
6	TEL 03/2000	Distance Learning Training Courses Project
7	TEL 04/2000	APEC Distance Learning Project on Basic Telecommunications Technology
8	TEL 02/2001	Distance Learning Strategic Needs Analysis
9	TEL 01/2001T	Electronic Commerce Capacity Building
10	TEL 02/2002	APEC Distance Learning Project on Telecommunications Technology
11	TEL 02/2003	Research into Electronic Commerce Strategies for Rural SMEs in APEC
12	TEL 03/2003	Overview of Internet Protocol version 6 (IPv6): Bridging the Digital Divide
13	CTI 23/2000T	Business-to-Government (B2G) e-Service Website for Post-Market Surveillance of SdoC
14	CTI 02/2001T	SCCP Program to Implement Risk Management
15	CTI 03/2002	Revision of the website version of 'a guide to arbitration and dispute resolution in APEC member economies'
16	CTI 02/2003	Publication of the 5th Edition of the APEC Investment Guidebook
17	CTI 03/2003T	Towards a Cross-Border Paperless Trading Environment—Actions for Trade Facilitation
18	HRD 01/1996	Lifelong Learning Project
19	HRD 05/1998	Internet and Electronic Commerce: Training Based on Java Technology in APEC
20	HRD 01/1999	Maintenance of the APEC LMI Database
21	HRD 11/2002	APEC Network of Skills Development Center
22	TPT 01/2000T	Pilot Electronic Commerce Training in Maritime Transport



**Table 2:** Selected APEC Projects on Knowledge-Based Economy (cont.)

No.	Project Number	Project Name
23	TPT 01/2001T	APEC Paperless Trading Demonstration Project—Electronic Transmission on the SANCRT Message
24	TPT 02/2001T	Electronic Port Manifests Project
25	ATC 01/1999S	Agricultural Technology Transfer and Training
26	ATC 01/2000	APEC Institutional Linkage for Human Resources Development in Postharvest Technology
27	EWG 03/1999T	Comprehensive linked database on mining and energy related legal framework within APEC Member Economies—Extension of Phase 2
28	EWG 03/2002T	Measuring the impacts of new economy technologies on the energy sector in APEC economies
29	SOM 01/2001T	Transforming the Digital Divide into a Digital Opportunity Phase 1: Symposium and Workshops
30	EC 05/1999S	Promotion of Knowledge-Based Industries (KBIs) in APEC Region
31	IST 01/1998	Establishing APEC Center for Technology Foresight—Phase 1

**Source:** Thailand's National Electronics and Computer Technology Center (NECTEC), ICT for Poverty Reduction: Examples of Programs/Projects in Thailand, Bangkok, July 2002.

**Table 3:** Percentage Share of Total Lending by Network  
(Type of Lending)

	1961/70	1991/2001
1. Human Development (HD) Network: Education and Health	3.0	19.0
2. Environment and Social Sustainable Development (ESSD): Environment, Agriculture, Rural Development and Social Protection	13.0	15.0
3. Financial Sector Network (FSN)	9.0	9.0
4. Poverty Reduction and Economic Management (PREM): Governance, Public Sector, Gender and Economic Policy	5.0	9.0
5. Private Sector and Infrastructure (PSI): Infrastructure, Extractive Industries and Private Sector Development	70.0	38.0
<b>Total</b>	<b>100.0</b>	<b>100.0</b>

**Source:** Approximate from Figure 4.3 in Goldin, Rogers and Stern (2002).

**Table 4:** ICT for Poverty Reduction, Thailand

Project Name	Goal or Rationale	How Related to Poverty Reduction?
1. SchoolNet Thailand	To link all schools in Thailand with internet systems.	Students who are able to learn from the vast educational resources of the internet have a better chance of employment and economic success in life
2. Agricultural Information Network (AIN)	To develop agricultural information systems that can be used in and for agricultural production, agricultural management, and community development	When farmers can access and use necessary information for their production, management and marketing, their income should increase and risks reduced, resulting poverty reduction.
3. Community Access Telecenters in Thailand	To assist community centers throughout Thailand to link up among themselves and with the outside world	A more open and more knowledgeable community could help its members to cope better with external changes and benefit from increased personal and community capability.
4. Data Warehouse for Community Products	To systematically catalogue various products of community throughout Thailand for efficient trade and services	Increased trade in goods and services at the community level will bring in more income to community members, thus reducing existing poverty.
5. Automatic Web Translation Services	To provide machine translation (MT) between English and Thai through the internet	Ability to use English is still limited among most Thais especially in the rural areas. This service could help many rural people with language problems to use the internet more profitably.
6. Rural Telephone	To provide one of the most important communication channel for people in the rural areas of Thailand	Telephone services could bring in faster agricultural information, and facilitate and accelerate rural trade which should bring in greater rural prosperity and less rural poverty.

**Source:** Thailand's National Electronics and Computer Technology Center (NECTEC), *ICT for Poverty Reduction: Examples of Programs/Projects in Thailand*, Bangkok, July 2002.



## **9. THAI ECONOMY IN THE ASEAN CONTEXT\***

**By Medhi Krongkaew\*\***

### **1. Introduction**

Apart from the handover of Hong Kong from Great Britain to China on July 1, 1997, another event in late July of the same year promises to be recorded as one of the most important in the modern history of East Asia. This is the formal admittance of three new countries in Southeast Asia as members in the 30-year-old Association of Southeast Asian Nations or ASEAN. These three countries are Cambodia, Lao PDR and Myanmar. This event has come about after much debate within the ASEAN itself as well as among interested and concerned countries around the world: interested because ASEAN has become one of the most successful regional grouping in the world today, and whatever it does collectively as a group commands attention; concerned because there are many reservations and unanswered questions about these three new members that by having them as full-fledged members of ASEAN may either connote some unwarranted political compromises, or jeopardise the stability of future ASEAN.

This paper will not be discussing political aspects and implications of such move by ASEAN leaders. It will instead look at some of the economic arrangements that ASEAN members have agreed to follow, the economic changes that have taken place or will be taken place in the near future, all of these by using Thailand as a focal point or a study case. In other words, this paper will discuss the Thai economy in the context of a rule-abiding member of ASEAN. Section 1 It will attempt to show

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\* Paper presented at the General Meeting on Asian-Pacific Competitiveness in the Global Context, organised by the Association of Development Research and Training Institutes of Asia and the Pacific (ADIPA), in Bali, Indonesia, 16-18 October 1997.

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how Thailand has prepared its economy for a higher form of economic cooperation in this region, the problems that it faces while doing so, and how it solves or tries to solve those and other related or associated economic problems in the globalised 21<sup>st</sup> century. Section 2 briefly describes the structure of the Thai economy and the current economic problems it is facing. Section 3 discusses the main features of economic cooperation under ASEAN framework, whereas in Section 4 we will discuss a few policy responses to such ASEAN principles by the Thai authorities. Finally, Section 5 concludes and offers some observations on what lessons could be learned from the Thai experience as a member of ASEAN.

## **2. Structure of the Thai Economy in a Nutshell**

Thailand was a low income, low growth economy at the end of the 1950s. Close to 85 per cent of the total population were engaged in agriculture of which rice was the major agricultural product. Its main exports consisted of rice, rubber, teak and tin. Then its leaders decided to move the country quickly along the path of modern economic development emphasising import substitution and later export promotion. With the help of the World Bank in preparing its first national economic development plan, Thailand adopted market approach to economic development, that is to say, it allowed the private sector to initiate their own investments with the government taking essentially non-interventionist approach but providing necessary incentives and basic infrastructure, legal and business frameworks.

Thailand today is a middle-income, developing economy. It has come this far through agricultural diversifications where several more crops such as maize, cassava, sugarcane were added to the list of agricultural expansion and exports. Import substitution industrialisation started with textile and consumer products, then moved up to garments, electrical appliances, electronic components, processed food, and jewellery. While the majority of the population is still engaged in agriculture (about half in 1996), the contribution of agriculture to GDP has fallen from about

40 per cent at the launch of Thailand's first national economic development plan in 1961 to about 10 per cent today, while manufacturing has increased its share from about 8 per cent to 30 per cent during the same time period. The services sector has remained relatively unchanged around 50 per cent. The rest of GDP is made up of contributions from other industrial activities such power and utilities, and transportation.

Three major factors helped explain the rapid economic growth of the Thai economy in the latter half of the 1980s: the extraordinary increase in exports after devaluation of the baht in 1984; the increase in (the second wave of) foreign direct investment from Japan after the Plaza Accord in 1985, and the increase in earnings from foreign tourists from 1987. The country has begun to suffer from shortage of infrastructure prompting the government to play much greater role in the provisions of infrastructure, the role made possible by the fiscal surplus in a booming economy. The strength of the economy also enabled the Thai authorities to liberalise its financial system quickly, opening the country to more competition (and higher risk) from abroad. The growth of the economy raised the average income of the people across the board, resulting in drastic reduction in the incidence of poverty to around 10 per cent in 1994.

Thailand suffered domestic political turmoil in 1991 and again in 1992 which saw its growth slowed. The problems erupted again in 1996 in the aftermath of serious floods throughout most parts of the country, when the inflation soared past 7 per cent, its exports failed to increase due to the loss of comparative advantage in low-cost manufacturing products, its current account deficits worsened to about 8.5 per cent of GDP, and its property market in trouble after too aggressive expansion in the late 1980s. The slowdown in export growth in 1996 and the first quarter of 1997, coupled with the financial difficulties of many banks and finance companies put a great deal of pressure on the Thai monetary and fiscal authorities to maintain economic stability, and erode the confidence of investors, domestic as well as foreign. The continued high level of current account deficits also put pressure on the exchange rate of the

baht which was effectively fixed with the US dollar. Many speculative attacks on the baht convinced the government leaders that the defence of the baht fixed exchange rate with the US dollar was untenable. This led to the flotation of the baht in early July 1997 which immediately saw the devaluation of the Thai baht by about 15 per cent. The ensuing inflation may come back to haunt the Thai economy again after the authorities have maintained the price increase in 1997 to about 4.5 per cent. It may take Thailand a few years to restructure its economy and move back on its high growth path again.

### **3. Principles of ASEAN**

Thirty years ago in 1967, foreign ministers of five Southeast Asian countries, namely Indonesia, Malaysia, Philippines, Singapore and Thailand, met in Bangkok to sign the Bangkok Declaration setting up the Association of South East Asian Nations or ASEAN. There were several reasons that brought these five nations together to form this economic grouping, but two of the most important could be that, firstly, this was an attempt by these countries to resist the economic and political powers of other countries within and outside the region, and secondly, they wanted an effective organisation that would help solve or mediate conflicts between member countries. From these reasons, it appeared at first that ASEAN would be more a political grouping than an economic grouping, which was correct. But these leaders had learned of the failure of such political groupings in the past, so this time they tried to avoid it by specifically designating ASEAN an economic grouping. Because of similarities in these ASEAN countries with regards to their agricultural orientation (with the exception of Singapore), there were little scope for economic cooperation in terms of increased trade and investment. It took ASEAN almost 20 years to become more engaged in economic cooperation in terms of greater intra-ASEAN trade and investment. But then this new found relationship took off and accelerated, culminating in member countries trading and investing in one another in differentiated manufacturing products and also traditional agricultural products.



We will not be paying too much attention to the development of ASEAN economic cooperation during the first two decades of its existence because there was not much development deserving our special attention. Suffice it to say that ASEAN leaders tried to maintain the momentum of interest among member countries, waiting for the right time for breaking through. At least the first ASEAN Summit of heads of government in Bali in 1986 led to the setting up of the Agreement on ASEAN Preferential Trading Arrangements or ASEAN-PTA, the backbone of ASEAN trade liberalisation policy then, and the ASEAN Industrial Cooperation (AIC), the joint investment program of ASEAN members. Not much progress had taken place in increased intra-ASEAN trade and investment during the second decade of ASEAN, although there were various attempts to revitalise ASEAN economic cooperation through changes in trade and investment agreements among ASEAN members (such as the installation of the more flexible ASEAN Industrial Joint Venture or AIJV program at the Third ASEAN Summit in Manila in 1987). It was not until the Fourth Summit of ASEAN heads of government in Singapore in January 1992 that ASEAN economic cooperation has really entered a new chapter.

And Thailand had played a crucial role in that summit in 1992. It was the initiatives of the then Thai prime minister Mr. Anand Panyarachun which called for the setting up of the ASEAN Free Trade Area or AFTA by the year 2008. All other ASEAN economic leaders agreed, and the Singapore Declaration of 1992 was proclaimed, officially giving birth to the AFTA movement. Of course numerous ground works and consultations were undertaken by Thai high-ranking officials prior to that Summit, with agreements from senior officials from other ASEAN member countries, and the blessings from their leaders. The new backbone of this AFTA movement is the Agreement of the Common Effective Preferential Tariff (CEPT) Scheme which calls for the successive reduction of tariffs in commodity trade among ASEAN members from the existing levels to no more than 5 per cent by the year 2008. For a special group of 15 products, the reduction to 0-5 per cent would even be faster by the year

2003.<sup>1</sup> Two years later, the deadline for the full operation of AFTA was moved up five years sooner, that is to say, for the so-called normal track products, the tariff reduction to 0-5 per cent must be achieved by the 2003, and for the special, 15 fast-track products, the reduction of tariff to 0-5 per cent must be achieved by the year 2000. Underneath all these specific agreements, the usual fair trade practices such as most-favoured-nations (MFN) treatment, national treatment, and transparency measures apply to all ASEAN transactions and activities.<sup>2</sup>

The investment cooperation in ASEAN has also changed. The AIJV which was in operation since 1987 was first supplemented by the so-called Brand-to-Brand Complementation (BBC) Scheme in 1988.<sup>3</sup> As a result of an ASEAN Ministerial Meeting in Singapore in 1996, a new industrial cooperation scheme was launched, replacing the AIJV and BBC. This new scheme is called the ASEAN Industrial Cooperation Scheme or AICO. It is an improvement over previous industrial cooperation in the sense that only two companies in two different ASEAN countries can enter into an 'AICO Arrangement' whereby the product or output of participating companies will enjoy a preferential tariff rate of 0-5 per cent now instead of having to wait until the year 2000 or 2003. The preferential tariff rate will also apply to the importation of intermediate products and/or raw material inputs for the manufacture of an AICO final product and/or AICO intermediate product. This is indeed a generous scheme and should generate vast interest among manufacturing firms within ASEAN.

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<sup>1</sup> These 15 products are: (1) vegetable oils; (2) cement; (3) chemicals; (4) pharmaceuticals; (5) fertiliser; (6) plastics; (7) rubber products; (8) leather products; (9) pulp; (10) textiles; (11) ceramic and glass products; (12) gems and jewellery; (13) copper cathodes; (14) electronics; and (15) wooden and rattan furniture.

<sup>2</sup> Of course the CEPT agreements allow for several exceptions and exemptions from normal tariff reductions such as the use of exclusion list of sensitive products that the country would like to see exempted or delayed from tariff reduction.

<sup>3</sup> This was a scheme whereby several automotive companies in ASEAN agreed to produce given automotive parts for different brands of cars in one ASEAN country in exchange for other automotive parts produced in other ASEAN countries. This was one of the measures to reduce production costs on the principle of division of labour and economies of scale.

The CEPT and AICO at present form a major part of ASEAN economic cooperation framework, but ASEAN economic cooperation has gone beyond this formalised trade and investment liberalisation. The foundation of ASEAN economic policies is similarly anchored in the principle of free and open trade as evidenced in a clause in the Singapore Declaration of 1992 which said: “ASEAN shall continue to uphold the principle of free and open trade embodied in the General Agreement on Tariffs and Trade (GATT), and work towards maintaining and strengthening an open multilateral trading system”. In fact, this is the principle that the new regional grouping, the Asia Pacific Economic Cooperation or APEC, has adopted, strengthening the position of ASEAN in its participation in APEC.<sup>4</sup> Also as part of an increasingly interdependent world, ASEAN has continued to intensify its cooperative relationships with its Dialogue Partners, namely Australia, Canada, the European Community, Japan, Korea, New Zealand and the United States, and engage in consultative relationships with interested non-Dialogue countries and international organisations.

#### **4. Thai Policy Responses**

As an export-oriented economy, Thailand is naturally bound by an established free-trade principle to support such economic grouping as ASEAN and APEC. This does not mean however that Thailand stands to gain in every way as a consequence of following the free trade regime in its general economic policy. Thailand is still a developing economy where some of its economic institutions still not developed enough to withstand rapid changes brought about by economic liberalisation. There are several questions of concerns that Thai authorities may wish to express with respect to the decision to join the regional groupings such as ASEAN

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<sup>4</sup> ASEAN countries wanted to make sure that APEC would not turn into a discriminating trade bloc and had set this free and open trade as a condition for its participation in APEC. This ASEAN condition is known as the Kuching Consensus which came out from a ministerial meeting in Kuching, Sarawak in 1992.

or APEC, questions such as: Would such economic cooperation benefit Thailand? What impacts will it have on local or domestic economy? What else needs be done to enjoy the benefits of such economic cooperation? And so on. These questions may be addressed in turn.

### **(a) The benefits of greater intra-ASEAN trade**

A standard trade theory stipulates that economic integration may bring beneficent effect of trade creation or detrimental effect of trade diversion depending on the nature of economies of trading or economic partners. If integrating economies are producers of different or differentiated commodities, the economic integration could bring in complementarity in their mutual trade leading to higher trade benefits, but if integrating economies are producers of the same commodities, then there are little opportunities for them to increase trade among one another. It was afraid that since most ASEAN economies (with the exception of Singapore) are basically agricultural economies (at least until the end of the 1980s anyway), the trade creation benefits from forming economic grouping to trade more freely among one another would not be that great.

This, however, has been proven wrong. The rapid industrialisation of ASEAN countries in the last two decades have brought about different manufacturing as well as processed agricultural products so that during the last one and half decades, trade among ASEAN partners expands substantially. The gains from trade are obvious from industrial restructuring and more efficient industrial production. Several empirical studies have shown this to be the case. A study by Menon (1996) on the dynamics of intra-industry trade in ASEAN, for example, shows that not only the intra-ASEAN trade has increased, such growth in intra-ASEAN trade has brought about an increase in the intra-industry trade (IIT) growth. What this means is that to the extent that there is some degree of industry-specificity in the employment of factors, their reallocation between activities or product lines within industries is likely to incur lower costs than their reallocation between industries. In other words, both labour and capital are likely to adapt more easily to a new

environment where the change is a result of increased intra-industry rather than inter-industry specialisation. Menon therefore supports Paul Krugman's idea that adjustment costs under the above situation may be lower because it is possible for all factors to gain from trade in an intra-industry setting. Based on the results of his study, Menon concludes that it is reasonable to expect that IIT will continue to grow in importance as ASEAN countries continue to industrialise and pursue more liberal trading regimes, and thus much of the concern that threatens the viability of AFTA may be misplaced.

International trade statistics of Thailand has shown very conclusively that the importance of its trade with ASEAN partners has increased enormously in the last few years. As shown in Table 1 (and Chart 1), the share of Thai exports to ASEAN in 1995 was 19.07 per cent compared to 19.01 per cent to the NAFTA market (including the US, Canada and Mexico), 16.79 per cent to Japan, and 14.53 per cent to the European Union. The growth rate of exports to ASEAN is also very high, averaging 32.92 per cent per annum during 1991 to 1996. Only the growth rate of Thai exports to Indochina countries is larger at 73.62 per cent per annum. Considering the fact that these Indochina countries will soon become ASEAN members, the figure for Thai exports to ASEAN in the future will enlarge substantially.

### **(b) The impacts of ASEAN economic cooperation**

At least one concern has been disposed of, but a more specific concern about across-the-board tariff reduction in future ASEAN trade may still linger on. Again several empirical studies on the effects of trade liberalisation (including tariff reduction) on domestic economy have shown that trade liberalisation would help rather than hurt domestic economy in the long run. For example, a study by Wisarn *et al.* (1994) has shown that the customs tariff reduction of Thailand in the AFTA agreements will be beneficial and not detrimental to the Thai economy. Wisarn *et al.* used a computable general equilibrium (CGE) simulation model to measure the change in volume and value of net exports and the

associated change in capital investment. A major finding of Wisarn *et al.* is that the customs tariff reduction of Thailand in the AFTA context will lead to the increase of Thai exports to both ASEAN and non-ASEAN countries due mainly to the reduction in the cost of manufacturing production, and this will lead to an eventual increase in foreign and domestic investments leading to further increase in exports. This increase in exports is true even the customs tariff reduction is carried out unilaterally without corresponding reductions from its ASEAN members. And the increase in exports is not only limited to ASEAN countries only but to non-ASEAN countries as well.<sup>5</sup>

As the initiator of AFTA, Thailand will continue to be praised for its forward-looking and path-breaking move. However, the fact remains that the average customs tariff rate in Thailand at the time of the AFTA proposal was highest among ASEAN countries and still is today. The Thai government has promised to abide by the timetable of tariff reduction as spelled out by the AFTA Agreement so that by the year 2000, all the fast-track commodity items will have a tariff rate of at most 5 per cent, and for normal-track commodity items, the same rate will be achieved by the year 2003. Table 2 shows how the timetable of tariff reduction in Thailand from 1993 to 2003.<sup>6</sup>

### **(c) Other liberalisations in the ASEAN framework**

As mentioned earlier, tariff reduction is the backbone of ASEAN economic cooperation, but tariff reduction is but one economic measure

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<sup>5</sup> However, these effects occurred under the assumption of long-run closure, that is to say, the model allows the economy to adjust along with the growth in capital stock as a result of tariff reduction. In other words, tariff reduction allows change in capital investment. If this assumption is dropped, that is when the short-run closure is assumed, the beneficial effects of customs tariff reduction are much reduced.

<sup>6</sup> It appears, however, existing economic conditions may dictate otherwise. That is to say difficulties in balance of payments may force the Thai government to increase customs tariffs of some import items either to increase government revenues or to continue its industrial protection.

that forms a larger part of economic reforms and liberalisation. In the present globalised world where countries must compete economically with one another to survive and prosper, economic reforms and liberalisation are a must. Thailand is no exception. It is fortunate that all ASEAN members are proponents of free market, and all have undertaken necessary economic reforms to free their economies from economic distortions and inefficiencies. These practices act as peer pressure to all ASEAN members to keep up their reform efforts.

For Thailand, the structural adjustments of the economy began in the middle of the 1980s when the country experienced economic slowdown and difficulties in its external sector, as mentioned earlier. Distorted prices were corrected and efficient subsidies and protections reduced. When economic health returned towards the end of the 1980s, the government leaders felt confident enough to begin financial liberalisation. Bank of Thailand first began to lift interest ceiling, then deregulate exchange control, ease the control on assets management of financial institutions, open off-shore banking facilities, improve the standards of financial institutions, develop new financial instruments, encourage greater competition among commercial banks and between commercial banks and finance companies, and try to develop Thailand into a regional financial centre.<sup>7</sup> These liberalisation efforts have made the Thai financial market stronger and more efficient, and should serve the Thai economy well in its future economic development.<sup>8</sup>

As countries in former Indochina region will become ASEAN members soon, the subject of the use of Thai baht as the subregional currency has become relevant. It was argued elsewhere (such as in Medhi, 1997) that the benefits of increased use of the baht in the Indochinese region from the point of view of Thailand are quite obvious. First of all, trade and investment between Thailand and its Indochinese neighbours

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<sup>7</sup> For details on different plans of financial liberalisation in Thailand, see, for example, Medhi (1997).

<sup>8</sup> For an empirical study that shows that financial liberalisation leads to domestic financial market becoming more open and more efficient, see Ariff (1996).

are expected to increase because the need to use convertible currencies which are scarce in many of these Indochinese countries is substantially removed. Secondly, the cost of foreign-exchange purchase and the risk of exchange-rate fluctuation from the point of view of Thai businessmen are reduced, providing an additional competitive edge to Thai businessmen. Thirdly, as it has been projected that the balance of trade between Thailand and its Indochinese neighbours will be against Thailand in the future, the use of baht will help reduce the pressure on Thailand's international reserves, at least in the short-run. Fourthly, the use of baht will have a direct link with domestic (Thai) production of goods and services helping local economy. And finally the use of baht give seigniorage gains to Thailand similar to the lending of these Indochinese countries to Thailand without charging interest.

But there are also some costs involved in the increased use of the baht outside Thailand. Firstly, it will be more difficult to project the demand for money and to control money supply because of the change in the behaviour of the demand for money.<sup>9</sup> Secondly, when the demand for the baht increases, the supply of the baht will also increase, putting pressure on the current account balance and inflation. Thirdly, the rush to convert the baht to foreign currencies in the manner which is detrimental to the international reserve position of Thailand could take place when there is a loss of confidence in the Thai baht. Therefore, there is an added pressure on the Thai authority to maintain the stability in the financial system of Thailand. The recent financial difficulties of Thailand which forced the government to float (devalue) the Thai baht may act as a brake to the idea of further developing the so-called Baht Zone because the Thai economy may not be strong enough to face wide-open international trade and finance regime.

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<sup>9</sup> However, under the present exchange rate system, it is already difficult to control the money supply due to its effect on the change in the international reserves. Therefore, even if the authority could estimate the demand for money (in this case, demand for baht) accurately, it is still difficult to control the money supply.



## **5. Conclusions: What Lesson May Be Learned?**

It may be concluded that the experience of Thailand as a member of ASEAN points to the necessity of trade and investment liberalisation as a precondition for a successful economic grouping that stresses long-term economic growth and efficiency. These liberalisation efforts which include tariff cuts and freer flows of trade and investment across border work even in the context of unilateral action, that is to say, trade and investment liberalisation without reciprocity. Unilateral actions of course induce free rider problems, but it is the free riders who fail to open up and make necessary economic adjustments who will suffer the consequences of inefficiency at the end. This spirit of unilateral trade and investment liberalisation (despite the immediate objective of forming a free trade area in Southeast Asia) could be considered the hallmark of ASEAN economic cooperation, which in fact has permeated into Asia Pacific Economic Cooperation or APEC. This economic openness and free competition should make ASEAN an example of desirable economic grouping for many other countries in other region and in the world.

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**Table 1:** Exports of Thailand by Country of Destination (Amount in baht: million)

	1991	1992	1993	1994	1995
<i>Amounts</i>					
Japan	131,052	144,393	159,479	194,274	236,101
NAFTA	166,872	198,991	217,582	256,204	267,278
EU	150,121	161,350	155,978	169,385	204,312
ASEAN	85,921	104,826	145,209	200,570	268,192
Indochina	4,124	8,738	15,740	26,254	37,469
Middle East	37,510	39,016	42,586	42,046	63,863
Eastern Europe	12,313	10,543	13,448	12,136	16,796
Others	137,717	156,786	185,840	236,731	312,300
Total	725,630	824,643	935,862	1,137,600	1,406,311

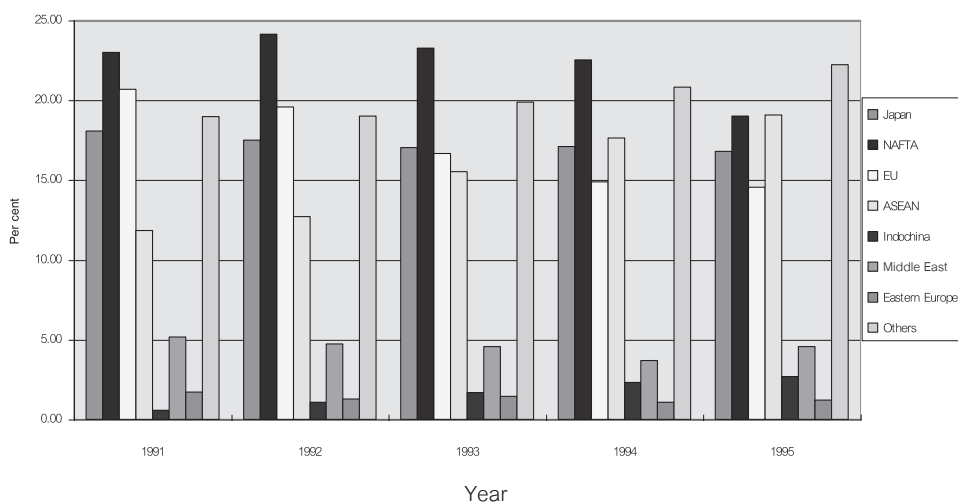
	1991	1992	1993	1994	1995
<i>Share</i>					
Japan	18.06	17.51	17.04	17.08	16.79
NAFTA	23.00	24.13	23.25	22.52	19.01
EU	20.69	19.57	16.67	14.89	14.53
ASEAN	11.84	12.71	15.52	17.63	19.07
Indochina	0.57	1.06	1.68	2.31	2.66
Middle East	5.17	4.73	4.55	3.70	4.54
Eastern Europe	1.70	1.28	1.44	1.07	1.19
Others	18.98	19.01	19.86	20.81	22.21
Total	100.00	100.00	100.00	100.00	100.00

	1991	1992	1993	1994	1995	1991-1995
<i>Growth rate</i>						
Japan		10.18	10.45	21.82	21.53	15.85
NAFTA		19.25	9.34	17.75	4.32	12.50
EU		7.48	-3.33	8.60	20.62	8.01
ASEAN		22.00	38.52	38.13	33.71	32.92
Indochina		111.88	80.13	66.80	42.72	73.62
Middle East		4.01	9.15	-1.27	51.89	14.23
Eastern Europe		-14.38	27.55	-9.76	38.40	8.07
Others		13.85	18.53	27.38	31.92	22.71
Total		13.65	13.49	21.56	23.62	17.99

**Source:** Bank of Thailand, Monthly Bulletin, December 1996.

Chart 1: Share of Thai Exports by Country of Destination

**Table 2:** Tariff Reduction Plan of Thailand, 1993-2003

Starting rate	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
<b>Fast Track</b>											
Greater than 30%	30	30	25	25	20	15	10	5			
26-30%			25	25	20	15	10	5			
21-25%			20	20	15	10	5	5			
16-20%			15	15	10	5	5	5			
11-15%			10	10	5	5	5	5			
6-10%			5	5	5	5	5	5			
5% and under											
<b>Normal Track</b>											
Greater than 30%	30	30	30	25	25	20	20	15	15	10	5
26-30%				25	25	20	20	15	15	10	5
21-25%				20	20	15	15	10	10	5	5
16-20%				15	15	10	10	5	5	5	5
11-15%				10	10	5	5	5	5	5	5
6-10%				5	5	5	5	5	5	5	5
5% and under											

Source: Fiscal Policy Office, Ministry of Finance

## **10. THE DEVELOPMENT OF THE GREATER MEKONG SUBREGION (GMS) IN THE APEC CONTEXT\***

**By Medhi Krongkaew\*\***

### **1. Introduction**

On looking back, the last 10 years had brought many important changes to countries in Southeast Asia. Most of the 6-membered ASEAN countries had recovered from a recession in the mid-1980s and had enjoyed the return to economic prosperity. They were so confident about their promising future that they were willing to commit themselves to the creation of ASEAN Free Trade Area or AFTA within the next decade where all trades among themselves would face tariffs no larger than 5 per cent in all trade items. Former socialist states in Southeast Asia had all relinquished socialist ways of economic development and embraced market approach to economic development. We saw the official abolition of the Burmese Way to Socialism in Myanmar, the adoption of the New Vision of Economic Development in Lao PDR, and the Doi Moi or Economic Reform Movement in Vietnam, all before the close of the 1980s. Even the new government in Cambodia in the early 1990s had harboured the market-oriented approach to its economic nation-building. Two other events that took place within the last 10 years that could have, or are having, important impacts on countries in Southeast Asia have been the establishment of the Asia Pacific Economic Cooperation or APEC in 1989 and the Greater Mekong Subregion or GMS growth area

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\* Paper presented at the International Conference on The Greater Mekong Subregion: Political and Security Implications for ASEAN, organised by the Cambodian Institute for Cooperation and Peace (CICP) and the Friedrich-Ebert-Stiftung (FES) in Phnom Penh, Cambodia, 4-7 July 1999.

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in 1992. As will be shown in more detail later, these two developments will eventually merge or converge, with great economic repercussions for emerging economies in Southeast Asia.

The main purpose of this short paper is to assess or evaluate the prospects of the convergence of the GMS growth area into the realm of APEC. What will happen when the remaining countries in the GMS growth area join APEC? What will they have to do, or what is expected of them, in joining this famous regional grouping? Will they benefit from being new APEC members, or will they lose? What are the steps involved in making the best out of this eventual development and convergence of the GMS in the APEC context? These are some of the questions that we will address in this paper.

Section 2 briefly recounts the origin of the GMS, taking into account the eventual expansion of ASEAN to cover all 10 countries in Southeast Asia, whereas Section 3 discusses the pertinent characteristics of APEC that will become relevant to all of these GMS countries later. After the basic information and facts about the nature and characteristics of GMS and APEC are known, Section 4 will look at what need to be done for the GMS to be a part of APEC in the future. Section 5 concludes and remarks on some policy implications.

## **2. The Origin of the GMS and Its Potentials**

The advent of economic prosperity in East and Southeast Asia in the latter half of the 1980s had brought about a new thinking on the technique to stimulate or encourage further economic development in the region. This is the practice of economic cooperation based on specific configuration of geographical area such as a triangle or quadrangle. Although the origin of this idea of growth triangle or growth area may be difficult to pin down, it is well accepted that its popularity has been due to various efforts of the Asian Development Bank (ADB). According to the ADB, the growth triangle concept refers to the exploi-

tation of complementarity among geographically contiguous countries to help them gain greater competitive advantage in export promotion. Growth triangle helps solve the practical problems of regional integration among countries at different stages of economic development, and, sometime, even with different social and economic systems. Growth triangle is also preferred to some existing types of economic cooperation because it entails low level of political and economic risks, and is preferred to regional trading bloc because it is more export-oriented and because of its non-exclusionary nature, and does not invite retaliatory action from outside. At present, one of the greatest growth areas in the Indochina subregion is the six riparian countries of the Mekong river, namely Yunnan Province of China, Myanmar, Lao PDR, Thailand, Vietnam and Cambodia which is now known as the Greater Mekong Subregion (GMS).

Why would or should any country in the GMS be interested in engaging in this form of regional cooperation? The most strategically-placed country in the Subregion is probably Thailand, which is also the strongest economy. Thailand can play a leading role in the future industrial development of the subregion. Despite its current economic difficulties, Thailand can be a cheap source of manufactured goods and consumer durables, and can provide some capital for development in the subregion, knowledge and technical know-how for industrial development, financial and other technical services. On the demand side, Thailand can be a large market for raw materials and energy inputs from its surrounding neighbours, and subregional tourism generated from Thailand has a very promising potential indeed.

For China, this GMS economic zone should provide an excellent southern gateway that could bring greater economic prosperity to the south and southwest provinces of China (for example Yunnan, Guangxi and Sichuan). This is important in light of the fact that the opening up of the special economic zones in the coastal areas of China has resulted in increased economic disparities between the coastal provinces and inner, land-locked provinces. As far as the Yunnan Province is concerned, the

distance to the sea at Laem Chabang in Thailand or the Gulf of Mataban in Myanmar is shorter than the same distance to the eastern coast of China. By being able to establish an alternative route to the south, Yunnan is expected to develop into another economic centre of south-western China, benefiting China in general and Yunnan and other south-western provinces in particular.

For Lao PDR, the long years of socialist economic management had strained its economic relationship with Thailand. With the advent of the New Economic Mechanism in 1986 when the country moved from a centrally planned to a market-oriented economy, the economic relationship with Thailand has improved. And this GMS economic zone should be an avenue by which future economic cooperation between Lao PDR and Thailand could develop. Potential economic benefits from greater economic cooperation between the two countries lie mainly in the area of energy, investment in agriculture, and tourism.

At present, the situation in Myanmar does not lend itself to a clear indication as to where the country is heading. The political problems are still not completely solved, which hinder its economic management. Nevertheless, the participation of Myanmar in the GMS is an indication that it is willing to work along with its neighbours in economic cooperation. In general, the economic and trade ties between Thailand and Myanmar have been strong, and could become even stronger when Myanmar becomes more democratised and its domestic economic situation becomes more orderly.

Despite the successful formation of a democratic government, the situation in Cambodia is still somewhat unstable. The country is still suffering from dis-organisation, inadequate capital, infrastructure and human resources. Help is still needed in these respects. Top priorities for subregional cooperation include various roads and railways linking Cambodia with Vietnam, Lao PDR and Thailand, and the upgrading of telecommunications network.



For Vietnam, the Doi Moi Economic Reform in 1986 has brought about drastic changes in the way the government has run the country. Foreign trade has been liberalised and foreign investment has been heavily promoted and encouraged. Although Vietnam has no difficulty establishing its external contact with other countries via the sea, the land distances between itself and its western neighbours are so short and easy to upgrade that it would be strange not to exploit this opportunity that the subregional cooperation will bring. It has been observed that when Route No. 9 that links Sawannakhet with Danang is connected with Mukdahan Province in Thailand through the second bridge across the Mekong River, it is shorter to ship some Thai products to the sea at Danang than down to Bangkok and Laem Chabang in the Eastern Seaboard of Thailand.

What have been the cooperative areas that the GMS countries have agreed to work together. Under the guidance of the ADB, there are 7 sectors that countries in the Greater Mekong Subregion have agreed to cooperate. They are:

- Transport
- Telecommunications
- Energy
- Tourism
- Environment
- Human Resource Development
- Trade Facilitation and Investment

Frequent meetings were held by responsible officials of member countries on all of the above sectors although it appears that progress was found more in one sector than the other. Probably the most visible progress is found in the transport sector where road and rail networks linking GMS countries. For example, as of early 1999, detailed engineering design, and environmental and social impact analyses of the Bangkok-Phnom Penh-Ho Chi Minh City-Vang Tau road project have been completed for the first phase involving the Phnom Penh and

Ho Chi Minh City Road. Concrete agreements have also been reached on arrangements for detailed design, pre-construction and construction activities for the eastern part of Route 9 in Lao PDR and location of the Mekong bridge in the Thailand-Lao PDR-Vietnam East-West Transport Corridor project. Thailand has prepared plans to upgrade the road links from Chiang Khong to Chiang Rai in the Chiang Rai-Kunming Road Improvement Project via Myanmar and Lao PDR.

Another prominent sector is the energy sector. It was reported during the Eighth Ministerial Meeting at the ADB Head-office in Manila in October 1998 that the 210 MW plant in the Theun-Hinboun Hydropower Project in Lao PDR was completed and had begun its commercial operations since April 1998. The tourism sector also has great potential in bringing greater economic prosperity into the subregion. Several promotional activities by private and national tourist organisations have resulted in a significant increase in awareness about the GMS as a tourist destination. Transport and tourism route along Lancang/Mekong River remains a fresh new territory to explore. On human resource development, progress was made in the cooperation in employment promotion and training in the GMS; prevention and control of HIV/AIDS, and the strengthening of capacity for addressing the health and education needs of ethnic minorities in the GMS.

In all, the above activities are just some examples of how the cooperation in the GMS could lead to increased economic activities across the subregion. The convenience brought about by the road and rail networks is certain to generate greater flows of goods and services, investment and people. Increased production and income will bring greater level of development and welfare among the people in the subregion. Economic cooperation in the GMS will bring higher growth to the subregion than the situation where there is no cooperation and everyone is acting independently. By moving the emerging members of the GMS faster to the level of the former ASEAN-6, the likelihood of these countries joining the APEC will be faster and less disruptive also.

### 3. The Principles and Modality of APEC.

APEC has come a long way since its birth in 1989 in Canberra, Australia under the initiative of Mr. Bob Hawke, then the Australian Prime Minister. With the same amount of time that it took for the Uruguay Round of GATT negotiations to reach an accord that gave birth to the World Trade Organisation (WTO), APEC has grown into a very promising regional organisation that indeed could be a model upon which many other regional or international organisations could observe and emulate. But all this has been accomplished in an atmosphere of much less stress, suspense and anguish that was the hallmark of the Uruguay Round of GATT negotiations. In 1993, with the personal blessing and participation of Mr. Bill Clinton, the President of the United States, the meeting of economic ministers among APEC members which was then the highest form of official meeting was elevated onto Economic Leaders' Meeting, more commonly known as the APEC Summit. From then on these economic leaders meet every year, in different APEC member economies. From 1994 to 1998 they met in Bogor, Indonesia; Osaka, Japan; Manila, the Philippines; Vancouver, Canada; Kuala Lumpur, Malaysia. In 1999, the venue is Auckland, New Zealand. The next two APEC Summits have also been decided: in 2000, in Bandar Seri Begawan, Brunei, and in 2001, Beijing, China.

It is difficult to describe the nature of APEC in just a few words. It is not an economic grouping in the same mould as the European Union, or an economic organisation like the World Trade Organisation, or a specific free trade area as the North American Free Trade Area (NAFTA). It has elements of each of the above, yet has maintained its unique character and identity. Perhaps, APEC is an experience that is better understood from its evolution from an idea of a possible trade bloc to a voluntary trading association. And perhaps the following three concepts of APEC could describe the true nature of APEC: the spirit of APEC, APEC Spiritualism, and Esprit de Corps of APEC.

### **(a) The Spirit of APEC**

As mentioned earlier, APEC came from the original idea of Mr. Bob Hawke, then prime minister of Australia in 1989. The circumstance under which this APEC idea was conceived was that in 1989, the Uruguay Round of GATT negotiations was under an eminent danger of collapse due to inability of its members to agree on several important basic issues including the treatments of agriculture and trade in services. If this historic trade negotiation should fail, it could bring about a trade war between Asia Pacific and Europe. At the extreme, APEC could be formed as such trade bloc that will challenge the European Single Market or European Union, and the impending trade war could be a messy one. Fortunately, the Uruguay Round was successful and a possible trade war was averted. But once started, the APEC idea could not stop, particularly when the idea is a good and innovative one. APEC would not be formed as a trade bloc but as an ‘open economic association’ (Yamazawa, 1992). It is open because it does not seek to discriminate against non-members. It is economic because it deals basically with economic growth, trade and investment. And it is an association because participants do not cede powers of regulation or enforcement to any supra-national regional institution.

By the time economic ministers of APEC member economies met for the second time in Seoul in 1991, the open regionalism concept of APEC was well entrenched although member economies were not quite sure what the exact form of this regional grouping might be in the future. This non-trade bloc posture of APEC was also a basic condition that enabled the participation of ASEAN which was already a successful regional grouping in its own right (see Box 1 for the Kuching Consensus or the principles of ASEAN participation in the APEC process). ASEAN countries were reluctant at first to participate fully in APEC for fear that it would dilute its own ASEAN spirit. But as long as the Kuching Consensus is observed, there should not be any such fear.

It was now well known that Malaysia was opposed to the Australian concept of APEC at first. The Malaysian leader did not attend the first APEC Summit in Seattle in 1993, and when the Second Summit

in Bogor came around in 1994, there was an earlier apprehension that the Malaysian leader may not attend again, which was certain to affect the solidarity of APEC. Not only that the Malaysian leader did attend, the Second Summit in Bogor had produced the Bogor Declaration that definitely defines the future form of APEC, that APEC will be a group of countries and economies which had set the goal of achieving free and open trade and investment in Asia Pacific by the year 2020 (see some of the important Bogor commitments in Box 2). It was indeed a bold pledge, or commitment which enhanced the image of APEC further.

Although Malaysia again raised some contentious points about the adoption and interpretation of the Bogor Declaration, they were in no way affect the general magnanimity of this declaration. Not only that tariffs will be reduced and trade and investment liberalised, future APEC will also call for economic and other trade and investment facilitation, and economic cooperation in more than 10 areas of economic work and social activities.<sup>1</sup> It must be the enthusiasm of most economic leaders of APEC to want to see the continuing momentum of APEC that they came out strongly and positively in support of APEC as portrayed in the Bogor Declaration. And they were willing to do many things to set examples for others to follow. These individual voluntary actions (such as tariff cuts, or participation in work programs) serve as ‘peer pressures’ that eventually drive other members to do the same or at least not to obstruct the move. And Malaysia could be counted in this category because not only that it no longer insists on a separate regional grouping that excludes Australia and New Zealand, it has proposed to be the host for the 6<sup>th</sup> APEC Summit in Malaysia in 1998. This willingness to accommodate the wishes of others and to work together for the benefits of the group has become the hallmark of APEC’s cooperative spirit.<sup>2</sup>

<sup>1</sup> These 13 areas of work programs include (1) human resource development, (2) industrial science and technology, (3) small and medium enterprises, (4) energy, (5) transportation, (6) telecommunications and information, (7) tourism, (8) trade and investment data, (9) trade promotion, (10) marine resource conservation, (11) fisheries, (12) agricultural and technical cooperation, and (13) economic infrastructure.

<sup>2</sup> Dr. Mahathir Mohammad, the Prime Minister of Malaysia, who was earlier opposed to greater degree of formalisation of APEC, was reported to have said that, “...if it is the wishes of other members that it be strengthened, Malaysia would allow itself to be dragged along”. Quoted by Hadi Soesastro (1995, p. 8).

### **(b) APEC Spiritualism**

Such was an indication of the spirit of APEC. But, to really accomplish the very fundamental principle of APEC will need more than the willingness to accommodate the wishes of others and to work together for the benefits of the group. It was mentioned earlier that APEC activities can be divided into 3 groups: trade and investment liberalisation, trade and investment facilitation, and economic and technical cooperation. It is the first group of activities that are important for APEC as an 'open economic association' in the way it was originally conceived. APEC participants will reduce tariffs to zero within a specified time period, and they will remove impediments to free trade and investments. But they will not do these only in exchange for the same from their trading partners; they will do this voluntarily and unilaterally, without having to wait for reciprocal gestures from their trading partners. In the language of APEC, they call this concerted unilateral actions. To do this they need more than courage to do something they have never done before. They need a conviction that such unilateral action will bring in greater good in the long-run, a conviction that may in fact derive from faith in the market system. It is this faith in the market force in support of free trade and free competition that gives rise to not just spirit of APEC but the spiritualism of APEC.

Why is that a voluntary and unilateral trade liberalisation is to be worshipped more than trade and exchange regime based on reciprocity? For one thing, to be able to excel in the most cost-productive technique of making things without the undeserved benefits of protection from competition would always put that producer ahead of everyone else, and he can enjoy all the comparative and competitive advantages from trading with anyone. So, reducing the protective walls of tariffs will bring forth the long-run benefits of the economy. Of course non-market arguments could be found to counter the impending benefits of free trade and non-distorted production techniques, the final proof may have to come

from empirical testing or studies. This, the free trade school often wins.<sup>3</sup>

This may not be sufficient to really prove without any doubt the superiority of so-called MFN liberalisation over the FTA or free trade are liberalisation, but it suffices to convince most APEC members, especially members from East Asian economies, to have faith in this Asian method of concerted unilateral trade liberalisation in contrast to the so-called American methods which rely more on negotiated reciprocity. And that is enough for APEC for the time being. It should be noted that trade liberalisation activities (as well as other trade facilitation and economic and technical cooperation) are carried out in two tracks, one by economic leaders at the summit, and the other by permanent bureaucrats or officials during the rest of the year. These bureaucrats can provide necessary information and suggestions to economic leaders who will make final decision or set policy for these bureaucrats to implement. These two players in the decision making game must have the same faith in the same thing, otherwise correct policy implementation cannot take place.

### **(c) Esprit de Corps in Economic Cooperation**

From the frequent contacts that these bureaucrats meet their APEC counterparts in various APEC meetings, they must have developed closed personal friendship and camaraderie in their work.<sup>4</sup> This is another way that the peer pressure may be made to work. This peer pressure has

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<sup>3</sup> Some of these studies are explained in Drysdale and Elek (1995), Wisarn et al. (1994), and Petri (as cited in Soesastro, 1999).

<sup>4</sup> This friendship can develop at all levels of APEC contacts. In the present setup, the meetings can take place in the following forums:

- (a) Ministerial Meeting (MM) will take place once a year with the minister of foreign affairs of each member leading the delegation.
- (b) Senior Official Meeting (SOM) will take place three to five times a year with senior officials with the rank of permanent secretary leading the delegation mainly to acknowledge and discuss the progress of the work carried out under APEC Work Programs and the administration of APEC Secretariat in Singapore.
- (c) Working Groups Meetings (WG) will be meetings among experts in specific work programs which at present consist of 13 areas as mentioned earlier
- (d) There are 3 more committee meetings that can be classified under regular activities. They are the meetings of the Committee on Trade and Investment (CTI), the Budget and Administration Committee (BAC), and the Economic Committee (EC). They meet about 3-4 times a year.
- (e) APEC Secretariat Office is a regular centre for APEC administration and budget, coordinating and supporting work programs of APEC as mentioned above. The office is located in Singapore, and is headed by the Executive Director whose term is one year and the post is rotated among member countries.

developed out of the desire to do well, to please, to earn trust and respect of friends and colleagues. This spirit for the group or group action has brought about many results in the ASEAN setting, such as the change of items in the list not subject to fast track tariff reduction, the delays in submitting more items for tariff cuts, and other similar delaying tactics, but so far ASEAN bureaucrats in member countries have succeeded in getting what they want without alienating one another. If this can happen in the ASEAN setting, it can happen in the APEC setting too, as the basic principles are the same.

After the momentous target setting at the Bogor Summit, each APEC Summit that followed has produced concrete proposals or plans of action that inexorably push APEC forward. The Osaka Summit in 1995 had sharply defined the functions or activities of APEC as consisting of (a) trade and investment liberalisation, (b) trade and investment facilitation, and (c) economic and technical cooperation. The first two functions are often combined and referred to as TILF (trade and investment liberalisation and facilitation) and the third functions as ECOTECH. The Osaka Summit also produced the so-called Osaka Action Agenda where members had agreed to set their own priorities and schedules for liberalisation. The next summit in Manila in 1996 produced the Manila Action Plan for APEC (MAPA) where APEC members would submit Individual Action Plans (IAPs) that either set definite commitments for trade and investment liberalisation and/or facilitation (such as tariff cuts or the lifting of non-tariff barriers) or at least make some kinds of promise. The Vancouver Summit in 1997 had resulted in members' agreement to consider Early Voluntary Sectoral Liberalisation (EVSL) of 9 sectors in each member's economy. The Kuala Lumpur Summit in 1998 was probably the most problematic because it was held under the cloud of debilitating economic crisis in East and Southeast Asia, and internal political problems in Malaysia. The agreement to consider EVSL did not produce any positive result. In fact, it had jeopardised the status and stature of APEC as many members openly objected to the liberalisation of some sectors, and the meeting was saved only by a



face-saving submission of sectoral liberalisation to the jurisdiction of the WTO. Yet the Kuala Lumpur Summit had succeeded in highlighting the importance of financial cooperation and the increased roles of APEC finance ministers, and the greater emphasis on human resource development in the ECOTECH networks.

Further on the need for assistance from member economies in economic cooperation, this need may cut across into other traditional areas of economic cooperation as well. So far we have 13 areas of work programs that cooperation among members could be undertaken. Two questions may arise with respect to whether the present coverage of economic areas in the work programs is appropriate, and whether APEC should add any more work areas. On the first question, it is obvious that the activities within the 13 work programs are quite diverse. Some programs such human resource development have received much attention from APEC members as can be seen from the large number of meetings among country officials. But some work programs hardly made much progress at all (for example, marine resource conservation work programs, fisheries work programs, and trade promotion work programs). To reduce administrative workload, perhaps APEC members might want to restructure these work programs, for example, combine marine resource conservation with fisheries, trade and investment data with trade promotion, and transportation with infrastructure.

The second question about what new work program should be included in the APEC system is more interesting. In the aftermath of the Manila Summit, we often heard about ECOTECH, and two implications that have emerged from such mentioning: one is the desire for APEC to promote greater or more sustainable development in its cooperation efforts; and the other is possible reduction in official development assistance (ODA). Sustainability of development often means only the rehabilitation and preservation of physical environment, which is acceptable, but sustainable development should include social environment as well, and no other social environment problems could be more urgent than poverty and income inequality problems in many East and South-

east Asian APEC member countries today.<sup>5</sup> But these problems have not been addressed at all in the APEC setting despite the fact that no long lasting economic cooperation would work when only small proportion of the population would gain much more the rest in the country. The tendency to reduce ODA can also be looked upon as a rationalisation of donor countries who fail to observe the pledge to spend a certain small proportion of their national wealth and income to help poorer members in the group. ECOTECH is no excuse to reduce the ODA, and it could be argued that the establishment of a new work program that concentrates on attacking basic poverty and income inequality problems could indeed persuade or stimulate development authorities into put more emphasis on poverty alleviation and reduction in income inequality without having spending more on ODA.

#### **4. What Need to be Done for the GMS to Join APEC?**

Now that the basic characteristics of the two regional groupings, GMS and APEC, are known, how can we marry the two? Some of the members of GMS are already members of APEC, so they are fully absorbed into the working mechanisms of APEC. It is the four new members of ASEAN namely Cambodia, Lao PDR, Myanmar and Vietnam that special attention may be paid to the question how they can join APEC in the future, if at all. Although the current 21 members of APEC have agreed to observe another moratorium regarding acceptance of new members, the role and existence of ASEAN in APEC may give a special concession to ASEAN as a whole. With the admission of Cambodia as the last member of ASEAN, the process of ASEAN expansion is complete. Even if some ASEAN countries are not accepted as full-fledged members of APEC, they will always maintain a special relationship within APEC, being members of ASEAN.

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<sup>5</sup> The prospective entry of Vietnam as a new member of APEC make this urgency of this work program even greater. In the near future when ASEAN7 becomes ASEAN10 with Myanmar, Lao PDR, and Cambodia new ASEAN members and new prospective APEC members, the need for such inclusion is even clearer.

The new or prospective new members of APEC may be required to fulfil the following conditions before being admitted to full members. These conditions are as follows:

**(a) Minimum Level of Economic Development**

There are no specific requirements that any economy must reach a certain level of economic development before it can be considered or become a new member of APEC, and in fact the current membership setup in APEC is quite diverse with the two most powerful economies in the world as members (the US and Japan); the largest economy in terms of population but a developing economy in terms of its level of economic development (China); two city-state type economies but quite developed (Singapore and Hong Kong); and an OECD member which has the smallest number of population (New Zealand). But all members of APEC have at least one thing in common, that is all have adopted the market approach to economic development and management. All have striven to reach or maintain a high level of economic well-being or standard of living. All have engaged or attempted to engage in economic reforms that will reduce the level of economic distortions in the economies and increase the efficiency and competitiveness of such economies. The sufficient level of economic development may also imply the existence of economic institutions that are necessary for the type of economic activities required in APEC such as modern financial and payments systems, transportation and communications networks, capable bureaucracy and generally literate or well-educated population. Economic relationship between very rich and very poor partners may not be very productive and could evolve into the situation of patron-client relationship rather relationship among equals. And the impact of trading relationship between large and small members could create a well-known terms-of-trade effect where the larger trading partners reap all the gains from trade through their sheer size of products and market power. A minimum level of economic development may also imply that some regulatory measures to soften the adverse impacts due to size could be more easily implemented or followed.

### **(b) Minimum Level of Political Development**

Again, there are no specific requirements that each economy or country must reach a certain level of political development before being considered for an APEC membership. Here the minimum political development is even more difficult to define than minimum economic development where some summary measures of economic development such as per capital GNP, total value of trade, external reserves can be used for such purpose. Democratisation is often used as a minimum requirement for political development, and this could mean frequent, regular, open and transparent elections of public offices. But minimum political development is more than just elections. It may have to include the respect of the basic human rights, the rights of minorities, the genuine belief in the rule of law, the opportunity for popular participation in decision-making process, the accountability of policy-makers or public-office holders, and so on. APEC community probably would not tolerate the use of power to solve political conflicts, the failure to honour democratic political commitments or obligations, and the inability of the political system to consider issues that may have cross-border or supra-national political implications. Perhaps political education alongside general education may be necessary for those countries in the GMS which may still face with the problems of inadequate political development.

### **(c) Acceptance of APEC Spirit**

Most important of all, perhaps, is the acceptance of the spirit of APEC as described in the previous section. The four new members of ASEAN should also be abided by the Kuching Consensus that defines the nature of the new economic grouping that does not violate the original concept or principle of ASEAN. Next came the principles of open regionalism that stress voluntary participation, concerted unilateral liberalisation in trade and investment, and non-discriminatory treatments to all trading partners. More specifically, prospective new members may still have to observe the Bogor target of 2010, although it is quite likely

that some special measures or concessions may be necessary for poorer new members. The usual protective tariff regime for infant-industry purpose may have to give ways to tariff reduction quickly if a membership to the APEC community is considered. Moreover, there are other obligations that APEC are required to pursue, such as the submission of the IAPs on an annual basis, or the promise to consider early voluntary sectoral liberalisation (for the time being anyway).<sup>6</sup> Other facilitation obligations include, for example, the adoption of standards and conformance, customs procedures, intellectual property rights, competition policy, government procurement, dispute mediation, mobility of business people, and so on.

#### **(d) Participation in Specific Work Programs**

Currently there are more than 300 work activities in the 13 work programs that APEC members participate regularly throughout the year. These economic and technical cooperation activities are today considered not less important than the trade and investment liberalisation and facilitation aspects of APEC. In fact, some even go so far as to say that these ECOTECH activities are not the third leg or the third pillar of APEC but rather the heart the pumps blood to other parts of the APEC body (see Elek and Soesastro, 1999). For new and less economically established members of APEC, the benefits from these work programs are enormous, and they are important means towards rapid attainment of minimum level of economic development. There are costs involved, however, and the costs may include both the cost of manpower and technical personnel who may be required to attend numerous meetings throughout the year, and the costs or expenses associated with such travels. Obviously by

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<sup>6</sup> Recently several experts on or about APEC have come out against the concept and practice of EVSL, arguing that it is foreign to the original APEC concept of open regionalism and concerted unilateral liberalisation based on the development pace of each member. Some have argued that EVSL is suitable for the WTO-type mode of trade negotiations but not for APEC which is not a rule-based organisation but an organisation based on consensus and peer behaviour. See, for example, Hadi (1999) and Lloyd (1999).

streamlining the work programs as suggested earlier, the benefits from participation may be brought into sharper focus and the costs reduced.

## **5. Summary and Conclusions**

This paper has attempted to explain the origins and functions of the two most current regional groupings in East and Southeast Asia, the Greater Mekong Subregion and the Asia Pacific Economic Cooperation. The main purpose of the GMS is to utilise the joint resources in common geographical layouts for speedier development and larger benefits than if each member is acting alone. The GMS growth areas have large potentials for new development in transport, energy, tourism and human resources. The main purpose of APEC is to promote trade and investment liberalisation and facilitation, and economic and technical cooperation in the Asia Pacific region. It has praised the basic principle of unilateral economic liberalisation in APEC as a unique and very meaningful method of economic cooperation that emphasises open regionalism. It is believed that the long-term benefits from unilateral liberalisation is greater than short-term gains through negotiated reciprocity. But a newly liberalised or reformed economy runs the risk of economic vulnerability from outside economic influences, the risk which could be lessened by concerted group assistance. Group spirit is important for such cooperative activities as seen in APEC. For prospective new members of APEC in the GMS, what need to be done include attempts to reach minimum levels of economic and political development quickly, the adoption of the basic principles of APEC of voluntarism, unilateral liberalisation, and economic and technical cooperation, and the participation in various work programs that will eventually these prospective new members.

In conclusion, most countries in Southeast Asia especially the original 5 members of ASEAN, have shown a long tradition of depending the force of the market to dictate the direction of economic development and management. These market-oriented principles have

served these countries well. The severe economic crises that trouble many of these countries at present may also be attributable to the market force, but this is only partially correct as the faults in institution setting and human misbehaviour in each country are also to blame for this. At any rate dependence on market force will also bring about rapid recovery. So, the guiding principle of ASEAN is still intact. As one of the general principles of GMS economic cooperation is that it has no intention to lay the foundation towards the formation of a trade bloc, this subregional cooperation does not conflict with the main guiding principle of ASEAN. And in a larger context of APEC, ASEAN is always a proponent that APEC is a forum for intergovernmental cooperation with a view to supporting and promoting non-preferential and non-discriminatory trade and investment in the Asia-Pacific region. As such the GMS economic zone could be looked upon as a part of a much larger global economic arrangement that, once accomplished, will lead to a better life and livelihood of all the people in the region.

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**Box 1: The Kuching Consensus**

ASEAN members in their meeting at Kuching, Malaysia in 1990 have agreed to adopt the following conditions toward the acceptance of APEC.

1. ASEAN's identity and cohesion should be preserved and its cooperative relations with its dialogue partners and with third countries should not be diluted in any enhanced APEC;
2. An enhanced APEC should be based on the principles of equality, equity and mutual benefit, taking into account the differences in stages of economic development and socio-political systems among the countries in the region;
3. APEC should not be directed towards the formation of an inward-looking economic or trading bloc but, instead, it should strengthen the open, multilateral economic and trading systems in the world.
4. APEC should provide a consultative forum on economic issues and should not lead to the adoption of mandatory directives for any participant to undertake or implement;
5. APEC should be aimed at strengthen the individual and collective capacity of participants for economic analysis and at facilitating more effective, mutual consultations to enable participants to identify more clearly and to promote their common interests and to project more vigorously those interests in the larger multilateral forums; and
6. APEC should proceed gradually and pragmatically, especially in its institutionalisation without inhibiting further elaboration and future expansion.

### Box 2: Some Targets from Bogor Agreements

- **Trade in goods:** Zero tariffs for all goods and removal of all quantitative restrictions.
- **International investment:** (a) national treatment of all firms in all sectors of production (except for a short negative list, e.g. some media); (b) no limits on rights of establishment (except for sector listed above); (c) national treatment of international investors in terms of fiscal policy (taxation and/or subsidies); (e) all APEC governments to accede to existing international conventions for the settlement of disputes relating to international investment.
- **Trade in services:** No limits on travel related to the provision of services for short-term visits.
- **Trade policy dispute settlement:** An APEC Code of Practice to be adopted urgently.
- **Competition policy:** Following the adoption of an agreed code of minimum standards for competition policy by 2010, no APEC governments to take anti-dumping measures against imports from any other APEC participant.
- **Administrative procedures:** full compatibility of customs documentation and clearance procedures, with EDI of all information.
- **Transport:** (1) full harmonisation of air traffic control procedure and safety standards; (2) No restrictions, other than for safety reasons, on landing rights for carriers with majority of shares owned by APEC nationals or by nationals of economies which impose no restrictions on landing rights to APEC-based carriers.; (3) all APEC governments to accede to the same international legal conventions for the carriage of goods by air, sea and land.

- **Telecommunications:** (1) mutual recognition of all technical telecommunications standards; (2) no restrictions to trans-border transactions; (3) national treatment for access to local common carrier networks.
- **Tourism:** visa-free travel by residents of APEC participants within the region for stays of up to 6 months.
- **Professional qualifications:** For an agreed list of professional and vocational qualifications professional qualifications set up procedures for APEC-wide recognition, based on accreditation of courses; or passing an accredited test.
- **Standards (other than already mentioned):** (1) by 2005, APEC governments to have completed a program of mutual recognition or harmonisation with at least the coverage as the EU achieved by end-1992, (2) by 2020, to have completed a program comparable to that of the EU at the time;

**Source:** Drysdale and Elek (1995, p. 13)



# **11. THE POLITICAL ECONOMY OF GROWTH IN DEVELOPING EAST ASIA: A THEMATIC PAPER\***

**By Medhi Krongkaew\*\***

## **1. Introduction**

Different governments in different countries have different reasons to decide on different public policies. This much is obvious. What is not obvious, however, is the fact that these reasons can be conditioned or influenced by a complex set of criteria that reflects power relationships among various persons and/or institutions in those countries. Many of us are often puzzled by a certain government decision that is clearly inefficient or distortionary but pleases a certain group of people, or surprised by a certain decision that is really forward-looking although the immediate benefits of such a decision is not clear to see. Take, for example, a decision to prohibit a certain import or to impose high tariff to protect a local manufacturer, or a decision to unilaterally reduce tariff in a regional grouping like ASEAN or APEC. As growth of the economy is something most governments in most developing countries would like to have, the interplay between the politics and economics of such growth-oriented policies becomes all important. The political economy of growth in these countries has become an important issue of concern.

Although there are different ways in which the political economy of growth could be approached in various countries and regions, it is

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\* Fourth revision, prepared for the Institute of Southeast Asian Studies (ISEAS), Singapore, for the Second Phase of the World Bank/East Asian Development Network (EADN) Project on Explaining Growth, October 2000. Earlier versions of this paper were presented at the Global Development Network Workshops organised by the World Bank in Bonn, Germany in December 5-8, 1999, and in Prague, the Czech Republic in June 9-11, 2000.

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necessary that some semblance of a uniform approach is adopted if comparison across countries and regions is to be made. In this respect, the organiser of the Global Development Network at the World Bank has suggested that three key common characters be included in the theme of study to be undertaken in each country. These three common characters are the historical evolution of decision-making, the determinants of some important policy actions, and the determinants of investments in these developing countries. In preparing this thematic paper on political economy of developing East Asia, the above three unique steps will be adopted.

East Asia is often regarded as one of the most diversified regions in the world. Many countries in this region have had long history that dated back several centuries, and many have developed independently of one another. These diversities are at once interesting and difficult to study. Interesting because each country would have different historical evolution of its own decision-making, and difficult because the patterns of these decisions are not the same. Yet the East Asian region may still exhibit common growth characteristics that define or explain the rapid economic expansion during the last several decades that has become the hallmark of East Asian economic miracle. Many have often referred to East Asian growth as a 'Flying Geese' phenomenon, or a 'Catching Up' process, or growth that depends on outward-looking, export-promoting strategies. In order to have a satisfactory coverage of developing East Asia, 8 countries or economies will be selected to represent developing East Asia. These 8 countries are: China, Indonesia, Korea, Malaysia, Philippines, Singapore, Taiwan and Thailand.<sup>1</sup>

On historical evolution of decision-making, one has to take into account the importance of colonial legacy on political structures and

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<sup>1</sup> These historical development and evolution are referred to, not so much to tell the full story of what had happened as to highlight common features or characteristics that stand out from the past. The main purpose of this study is to try to explain these growths and changes by referring to individuals or groups of individuals or institutions and their interactions therein that brought about such growths and changes.

systems that exert their influence upon the process of decision-making. This ranges from a strong democratic tradition in the Philippines, a strong bureaucratic tradition in Malaysia and Singapore, a strong feudalistic tradition in China, Thailand and Indonesia, and the Japanese influence in Korea and Taiwan. However, the periods that are relevant to this study would be after the Second World War when the above countries started to develop in their own ways.

On determinants of key policy actions, the following policy variables may be included in the study: trade policy, exchange rate policy, budgetary policy, tax policy, and monetary policy. In discussing the above policy variables, the following 'policy actors' may be included: the politicians or power elite, the political parties, the parliament, the interest or pressure groups, the bureaucracy, and the media. The discussion on this topic can be made on at least two levels: one is 'on-the-surface' analysis of the current economic situations, and the other is 'in-depth' analysis of certain economic decisions that have great impact on the existing economic makeup of the country.

On the factors that influence investors' confidence, this part of the study will look at the records of foreign direct investment (FDI) in each country and discuss the reasons for such FDI. It is inevitable that we have to discuss the macroeconomic performance or management of each country as well, as this is a good reason why foreign investors have confidence or trust in any particular country.

In what follows, therefore, the paper will discuss, in Section 2, the historical development of selected East Asian economies. The emphasis on this section is not a history of economic development of these countries in general, but the highlighting of important economic events in the past that have crucial or important bearing upon the situations or events at present. The selected East Asian economies included in this section will be divided into 3 groups. China will be the only country in Group A, representing a unique economy which is very large and largely underdeveloped but with a potential to become a major world economic power in the future. Group B consists of the so-called

Newly Industrialised Economies (NIEs) of which Korea, Singapore, and Taiwan are selected as representatives. Group C includes those countries in Southeast Asia that share common economic features and are more or less in the same level of economic development. Four of these countries selected are Indonesia, Malaysia, Philippines and Thailand.

Section 3 looks at the courses of growth and development of these developing or newly industrialised countries in East Asia. It begins with further discussion on the explanation of rapid economic growth that took place in all of these countries in the 1980s and 1990s before embarking upon the highlighting of the main features of growth and development in each economy. Section 4 concentrates on political economic aspects of current development policies in each economy. The section starts with some discussions on the so-called political economy of policy-making where the concept of who makes policy and how are being addressed. Eight policy areas will form the basis on which discussion on each economy will proceed. These 8 areas are: overall growth policy, trade policy, exchange rate policy, expenditure policy, tax policy, monetary policy, price policy, and investment policy. Section 5 discusses specific economic events or changes that have contributed to the present situations in each of the 8 economies. We can call these events ‘turning points’ in the evolution of economic policies, and this is where the true political economy of decision-making is being investigated. At least one ‘turning point’ in each economy will be selected and briefly analysed in the context of the interplay between political power, bureaucrats, the private sector, and other societal forces deemed relevant. As this is a thematic paper, it is neither the intention of the author nor is it possible, to discuss at length the political economy of this turning point. This is the foreseen duties of the country authors. It is possible of course to have more than one turning points in the historical evolution of important decisions in each economy. Finally, Section 6 concludes and assesses future prospects of political economy of growth in the East Asian region.



## 2. Historical Evolution of Economic Policies in East Asia

As mentioned earlier, the East Asian region is one of the most diversified regions in the world where neighbouring countries can be so different economically, politically, and culturally that it is impossible to draw any common factors that can be used to explain the patterns of their lives or livelihood. One thing is quite common, however, most of the countries in East Asia gained their independence after the Second World War, and started to develop their countries in their own separate ways. The events after the War are, therefore, very important because they often set the direction of the countries in the post-war periods.

Let us take China as our first case. Before the War, the Chinese government under the Nationalist Party or Kuomintang (KMT) was already engaged in internal conflicts with the communist group led by Mao Zedong on the one hand, and external conflicts with the Japanese on the other. Although the Pacific War had brought the Communists and the Nationalists together in their fight against the Japanese, the end of the War saw the two groups breaking apart again. This time the Communists got the upper hand and eventually defeated the KMT who fled to Taiwan. China as we know it today was then established in 1949 as a communist state. The economic and social changes in China in the following 3 decades would be changes under the rules of communism, or the rules set out by Mao Zedong to be exact. The growth of China during its first 30 years cannot be understood without reference to the philosophy of Mao.

Mao, of course, would like China to be like the then former Soviet Union. Emphasis was placed on rapid industrial development a la Soviet type (heavy industries) at the expense of traditional agriculture. The first 5-year plan (1953-1957) was actually built on that concept. After breaking up with the Soviet Union toward the end of 1950s, China under Mao saw even greater need to industrialise quickly. The second 5-year plan (1958-62) was the period of the Great Leap Forward where village-level heavy industrialisation was carried out with disastrous

results. At the same time, the formation of communes was complete where private plots were abolished and land redistributed. However, the lack of incentives in the communistic production system caused farm production to contract sharply. Coupled with bad weather, famine set in, killing millions of the Chinese people. The government was forced to relax on communistic production system and channeled more resources into the farm sector. Just as the economy started to recover, the whole of China was again embroiled in another political upheaval engineered by Mao and his followers. The period between 1966 to early 1970s was widely known as the period of the Great Proletariat Cultural Revolution when Mao used Chinese youth (the Red Guards) to purge his opponents and maintain his grips on power. Only when Mao died in 1976 and the reemergence of Deng Xiao-Ping as the new China leader in 1978 did the growth of the Chinese economy begin to change again, this time almost completely.

The case of Korea was different. Korea was under the Japanese occupation until the war was over. Internal conflicts between two leaders one supporting capitalism and the other communism had escalated into another war (the Korean War) in 1950 involving China and North Korea on one side and the American, South Korea and other UN-sponsored groups on the other. The end of the Korean War in 1954 saw the two countries sunk more deeply into poverty. Once the two countries started to develop, however, the above similarity ended. South Korea, adopting capitalistic, market-approach to development, with heavy support from the US in the form of aid and markets began to grow quickly. Political turmoil in South Korea in the early 1960s prompted a general to stage a coup and put himself in power. From 1962 until his death in 1979, General Pak Jung-Hee set the direction, the tone, and the tempo of South Korean development with his unique blend of state-directed development strategy and market-oriented economic policies. A few large companies or conglomerates (the Chaebols) were selected to develop certain industries producing certain goods and services under the rules of the market but with government subsidies and support. The results

were rapid expansion in industrial output. The assistance by the US in the formative years of South Korea played a very crucial part in helping South Korea to grow quickly. When South Korea started its economic development push in 1962, its per capital income was less than that of the Philippines, but today, the per capita income of South Korea is about 8 times larger than that of the Philippines. (see Table 1).

The role of the US in helping Taiwan in the post-war period was equally beneficial. General Chiang Kai Chek, the leader of the KMT, was already supporting capitalistic system, so the support from the American was natural. Like the case of Korea, American aid and markets provided initial help for both economies to start to grow. Also like South Korea, Taiwanese government was able to launch very effective land reform program where excess ownership of land was curtailed, and poor farmers were given land to work on. Later on it could be shown that the success in this land reform was a major factor explaining the more equitable distribution of income of both Korean and Taiwanese as the two economies developed. A major difference between the case of Korea and the case of Taiwan in their economic strategies was that, whereas General Park of Korea emphasised state-supported heavy industrialisation, General Chiang went for labour-intensive light industries where small and medium-scale entrepreneurs or enterprises were given liberal market access and infrastructure support by the government. Where the end results were the same, that is, both Korean and Taiwanese economies are export-oriented, the means to that ends in the two economies were different.

The situations in the post-war Southeast Asia were much more difficult because the Americans were not involved. The end of the war brought back former colonial powers to claim back their colonies. Most countries in Southeast Asia emerged from the Second World War with varying degrees of damages. Philippines suffered a great deal, and so did the Chinese in Malaya and Singapore. For Thailand, however, because it sided with the Japanese, it had escaped from much physical and institutional damages during the war but had to face moderate war reparations

later on. But the economic effects of the war in the form of inflation and shortages were everywhere felt in Southeast Asia.

Despite all these adverse effects and undesirable consequences, the Second World War combined with the intrusion of Japanese military power into Southeast Asia had helped shatter both the mystique and the institutions of Western colonialism (Steinberg et al., 1971). Not only that, the occupation policies of the Japanese in a number of Southeast Asian countries also provided nursing grounds for the expansion of popular participation in politics. Thus the Japanese, whether intentionally or not, helped rekindle the nationalistic and anti-colonial movements that lay below the surface in Indonesia, Malaya, the Philippines and Burma. It is these nationalistic movements that shaped what to become of many Southeast Asian economies later.

Take the first example of Indonesia. Under the Dutch colonial rule, the economy was neatly divided into the primary product export sector and the traditional agrarian sector (Paauw, 1981). This dualistic pattern of the economy where the modern, enclave-styled, export sector coexisted with the traditional, backward agricultural sector indeed typified the 'colonial pattern' of many Southeast Asian economies at the end of the war. It was discovered that dualism in Indonesia was in the form of ethnic Indonesians engaging in traditional agricultural sector and being labourers in the export sector, whereas higher income employment in central government and colonial export trade activities were reserved for European and Asian (mainly Chinese) minorities. Thus the twin inequities in production and employment were all very apparent as a legacy of the colonial rule, something which many nationalistic leaders attempted to redress during the post-war periods.

But the change would not come easily. When the Japanese were gone, back came the former colonial rulers to frustrate emerging nationalistic movements. Nowhere in Southeast Asia the post-war fight for independence was more traumatic than in Indonesia. The bitter colonial experience led the post-war Indonesian leader (Sukarno) to spend a lot of time and resources uprooting the Dutch colonial heritage,

and perhaps emphasising too much on economic nationalism. As a result, precious time and opportunities were squandered away. The economy was helped briefly by the Korean War commodity price boom, but fell back to the post-war stagnation again. Falling export revenues, rapid inflation and costly military expenditures following its 'confrontation' policies against the newly-created Malaysia saw Indonesia entering the 1960s in a rather shaky state. The discovery of oil and gas in the early 1960s eventually provided some help, but it was the political and economic instability within Indonesia in the middle of 1960s that led to the change of government from the 'Old Order' of Sukarno to the 'New Order' of Suharto, when an essentially inward-looking, nationalistic economic policies gave way to an outward-looking, more pragmatic economic policies.

In other Southeast Asian countries, the transition from colonial past was less disruptive. Malaysia and Singapore took a long time to attain independence from the British, but then the changeover left a smooth and well-disciplined bureaucracy and political systems that were a great help to economic development later on. Malaya and Singapore were already doing well in the rubber and tin exports, and in entrepot trade when the British left them in 1957. But the racial conflict between the indigenous Malays and the Chinese which was somehow suppressed during the British rule began to surface which eventually would have a long-term impact on the courses of development of Malaysia and Singapore later.

In the Philippines, the post-war periods saw the return of the Americans and American-style democracy. Many elites who worked with the Japanese during the War were also allowed to return. So, in terms of political continuity, there was no major problem. But strangely enough the economic continuity in the post-war Philippines did cause some long-term problems. For example, sugar which was a major export item of the Philippines received preferential treatments from the US, thus it did not provide incentives for the country to diversify into other crops like Thailand had done. The industrialisation process which started in

the early 1950s, well before any country in Southeast Asia, also caused some difficulties many years later.

Elsewhere in Southeast Asia, the post-war economies and societies were all changed to some degrees. Even Thailand which had never been colonised was imbued with some nationalistic fervour by its leaders. Therefore, one could see widespread establishment of state enterprises in the post-war periods as an attempt by the government to counter the economic influence of the Western companies and the Chinese minorities. In Burma which was an even larger rice exporter than Thailand during its colonial time, political instability after the war gave rise to an epoch-making coup d'état in 1962 making Burma turning inward and more or less ceased to develop. In Vietnam, the post-war settlement saw the independence of not one, but two countries, North Vietnam and South Vietnam. Although the Second World War was over, there were still other wars for North Vietnam: with the French, the Americans and its Southern brothers, and the Cambodians.

Therefore, as Professor H. Myint (1971:27) put it, it is broadly true to say that, allowing for varying degrees of political instability, the speed of economic recovery and economic development tends to vary inversely with the violence of reaction against the post-war pattern of economic development based on export expansion. Thus, in Indonesia and Burma where the reaction against the 'colonial economic pattern' was most violent, exports had been stagnant and economic recovery slow. Of course these were the countries which pursued economic nationalism policies. But those countries which pursued 'pre-war economic patterns' or neo-colonialism policies such as Malaysia and Thailand, the recovery was quick and economic progress satisfactory.<sup>2</sup>

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<sup>2</sup> According to Professor Myint, the pre-war pattern may be characterised by four main elements of economic policy: free international trade with low tariffs imposed for revenue purposes; free entry of private foreign investment into the primary export sector; a free market system inside the country relying on economic incentives to expand export production both from the peasant sector and from the mining and plantation sector; and financial and monetary stability based on balanced budgets and an automatic currency exchange system which maintains free convertibility with fixed exchange rates.

At this stage, it is appropriate to say now that all countries in Southeast Asia, using different policy instruments, started the post-war period with two commonly shared national goals: to promote industrialisation both as a symbol of modernisation and as a means of reducing their dependence on the export of a few primary products, and to transfer a growing share of their national incomes and economic activities to the indigenous section of their population (Myint, 1971: 29). Since all these countries were primarily agricultural countries, to industrialise would mean to cause structural transformation of a major kind. And this called for some economic development theories that could help the countries concerned develop and transform their economies.

In the late 1950s and early 1960s, there were several development theories that were being propounded and followed. Most developing countries in Southeast Asia, then would realise the significance of primary exports as the 'vent for surplus' which eventually led to industrial transformation. They would also realise and accept, the significance of savings to lead to investment and to increased national output. Then there was now classic theory of development with unlimited supply of labour of W. Arthur Lewis where a thesis was advanced that excess labour could be released from the traditional sector without affecting the output in that sector. This basic theoretical construct was expanded in a dualistic development framework by Fei and Ranis (1964) and later by Paauw and Fei (1973), which became an influential theory used to explain the pattern of Asian economic growth. According to this dualistic growth model where the economy is consisting of a small but progressive and modern industrial or manufacturing sector and a large but traditional and backward agricultural sector, the larger agricultural sector is providing not only cheap food supply to the industrial workers, it also provides cheap labour and foreign exchange earnings through exports of agricultural products. In other words, industrialisation in this setting needs initial supports from the agricultural sector in more ways than one.

In the dualistic industrialisation process itself there are unique phases that a developing economy should move along an appropriate

growth path to becoming an industrialised country. At least three phases or steps are involved and these are import substitution, export promotion, and export substitution. In the import substitution step, the industrial sector is oriented toward the domestic market to replace the traditionally imported consumer goods and will attempt to keep such domestic market exclusively for local products. What normally happens is import substitution industries are set up to produce simple, low-priced consumer goods, using imported machinery and cheap and readily available local labour. To encourage domestic manufacturing, the government often sets up protective tariffs and other protective trade and non-tariff policies for these import-substituting firms.

The next phase or step is the export promotion step. Here the industrial sector is having some experience producing various manufactured goods. It had become more efficient because the industrial production is based on the country's abundant and cheap labour resources which give it necessary comparative advantage while the production of the agricultural sector and to a smaller extent, the manufacturing exports will receive extensive promotion. Eventually the resource-based, primary exports will have their share of total exports reduced at the expense of increased manufacturing exports leading to the third phase or step of industrialisation which is export substitution. This is the step where the industrial sector is fully developed towards foreign markets with its outputs consisting of either labour-intensive or skill-intensive manufactures which the country enjoys comparative advantage.

There are sufficient reasons to believe that the development of most Southeast Asian economies are more or less of this type. However, while the development approach is more or less the same, the final outcomes or development results among countries could be different due to different ways in which each country carves out its domestic economic policies. Ariff and Hill (1985), for example, concluded their study on ASEAN export-oriented industrialisation by saying that international economy will have an important bearing on future growth rates (of ASEAN economies), but the critical determining factors (for the



success of most ASEAN countries) will continue to be domestic economic policies. In another context, Myint (1972: 36) also suggested that a proper way to development was for the underdeveloped countries to pursue their own domestic economic policies to improve their capacity to 'absorb' the available aid and trade opportunities. In short, those who can get their domestic policies right have a better chance to succeed in their quest for industrialisation and development.

It should be noted that while the economies of Northeast Asia, namely Korea and Taiwan, also follows the patterns of development found in Southeast Asia (import substitution followed by export promotion), the close contact between these economies and Japan was established much earlier on. Both of course were former colonies of Japan, so special relationship had developed. In fact, many scholars in Japan started to analyse the development of these NIEs along the same ways they analyse the Japanese economy earlier on (the 'flying geese' development pattern).

In the meantime, another explanation to the growth and development of economies in East and Southeast Asia was developed. This time by Harry T. Oshima. According to Professor Oshima, the monsoon economy is a rice growing economy that depends on highly-seasonal and concentrated rainfalls, the type that characterises most of Southeast Asian agriculture. Because of this pronounced seasonality and concentration, a large seasonal agricultural labour is demanded and their occupation movements are restricted by both the seasonality of the rain and the highly labour-intensive nature of paddy farming. To become industrialised, a monsoon economy needs to go through a different period of adjusting to this seasonality, the great labour demand during the peak months, and the rapid schedules of monsoon paddy agriculture. If this is successfully carried out, through construction of roads, transport, irrigation/drainage, and rural electrification, and improvements in rural institutions pertaining to agrarian relations, associations, extension services, credit distribution, research and rural industry, farm family income begin to accelerate and soon exceed the growth of the

labour supply. When the excess is sustained, Professor Oshima argues, full employment is eventually approached and wage begins to rise. With rising farm income, domestic demand for industrial and service output in the urban areas increases, leading to the increased demand for labour in the cities. Peasants find it necessary to mechanise farm operation in the peak season, and rising wages also induce industries to mechanise. Total factor productivity begins to accelerate and growing industrial efficiencies enable entrepreneurs to expand exports. The shift of workers from agriculture to industry increases even more. Finally, an equilibrium is reached where employment migration takes care of the welfare of the poorest peasants and mechanisation is complete both in the farms and in the cities to the extent that full employment is obtained. By now a monsoon economy is on its way to become an industrialised economy.

### 3. The Courses of Growth and Development

Despite diverse historical origins and different environments surrounding the ways in which each economy began its development process, one fact remains clear: almost all of these economies experienced a very rapid economic growth in the 1980s and the first half of the 1990s. Indeed, the growth of East Asian economies represented by the majority of our economies above, was so impressive and outstanding that numerous studies were undertaken to explain or analyse the apparent success of these East Asian economies. The most well-known of these studies is, perhaps, *The East Asian Miracle (EAM)* published by the World Bank in 1993. But before that, several influential studies already existed, and many more were conducted after the success of the EAM to give it additional interpretations and analyses. What are some of these explanations of the rapid East Asian economic growth that can help us understand the political economy of growth better later?

According to the EAM, there were at least 3 main explanations to the economic success of East Asia. The first explanation referred to the non-interference of the state and the force of the free market in

the neoclassical fashion. Wolf (1988), for instance, found that many of these successful East Asian economies benefited from decisions and policies that limited government's role in economic decision making and allowed markets, despite their imperfections and shortcomings, to exercise a decisive role in determining resource allocation. Even earlier on, Chen (1979) already saw the merits of this non-interference of the state, saying that what the state had provided was a suitable environment for the entrepreneurs to perform their functions. The second explanation, often called revisionist explanation, challenged the neoclassical view by arguing that the governments in many of these economies extensively and selectively promoted individual sectors (sometimes even by deliberately distorting prices). The third explanation, which was made by the World Bank in its 1991WDR, lies between the first two explanations. In this so-called 'Market-Friendly View', rapid growth in East Asia was associated with effective but carefully delimited government roles. The governments need to do less in the areas where the markets work, and to do more in the areas where the markets could not be relied upon. In the World Bank's view, the appropriate role of governments in a market-friendly strategy was to ensure adequate investments in people, provision of a competitive climate for enterprise, openness to international trade, and stable macroeconomic management. The EAM itself expands on this third interpretation and suggests a Functional Growth Framework whereby the three policy choices, namely the attainment of good basic economic fundamentals, the selective intervention, and the existence of good institutions, are used to explain the East Asian economic miracle. (World Bank, 1993, p. 88).<sup>3</sup>

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<sup>3</sup> Good basic fundamentals include stable macroeconomy, high human capital, effective and secure financial systems, limiting price distortions, openness to foreign technology, and good agricultural development policies. Selective interventions include export push, financial repression, directed credit, and selective promotion. And good institutions include

Like many path-breaking studies that try to make bold statements or conclusions, the EAM had attracted numerous critical comments.<sup>4</sup> Interestingly enough, many of these critical comments came from several Japanese scholars. Indeed, there are so many Japanese extensions of the explanations of East Asian growth that they represent a unique ‘Japanese’ school of thought. Chief among these modern Japanese viewpoints regarding East Asian growth are the Hosono Akio (1998) and Yanagihara Toru (1997). While agreeing with the World Bank in macroeconomic stability as an economic prerequisite for growth, Hosono, for example, tried to further explain East Asian growth by emphasising the role of the state in its dealing with the development of an economy. The state looks at the economy as the framework and the people as the actors who participate therein. The state has three roles in this ‘framework cum actors’ approach, namely in establishing and maintaining markets, in enhancing the capabilities of economic agents, and in attaining development goals. In a somewhat similar fashion, Yanagihara proposed to use ‘economic system approach’ based on the experience of Japanese economic development to explain other East Asian economic development (especially Korean and Taiwanese). To him, growth is perceived in the confine of an ‘economic system’ whereby certain institutional rules of the game exist, and economic agents within it are influenced or conditioned by them in their economic decisions and actions. In other words, an economy is conceived in terms of functions of institutions; it contains individual agents who make decisions and take actions in the markets that are defined as the coagulation of networks and the outcome of capacity building.

The importance of institutional factors in determining the path of growth is further expounded by yet another two Japanese scholars. Okuno-Fujiwara Masahiro (1997), for example, suggests the ‘comparative institutional analysis’ approach to explaining East Asian economic

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<sup>4</sup> See, for example, special issue of *World Development*, vol. 22, no. 4, April 1994.

growth. According to him, this approach, unlike the conventional neoclassical economic tradition, "...recognises that there are divergent economic systems operating in the real world and focuses its analysis on why such different economic systems exist, why these systems function stably, how these economic systems change overtime and, further, compares actual economic systems to analyse the reasons for the emergence of such different systems" (Okuno-Fujiwara, 1997, p. 454). Hayami (1998), tried to reconcile the same 'catching up' growth of several East Asian countries within disparate social and cultural systems. These different social and cultural systems are of course institutions that affect the growth pattern of these countries although similar goals may be perceived, that is the technology borrowing phase is replaced by the technology innovation phase. In comparison with the so-called Western approach, the Japanese approach as a representative of the Eastern approach can be equally effective in determining the growth of other East Asian economies. As Hayami has put it, what is more important is to recognise that both systems, created under different cultural traditions, were successful in getting modern industrial technology to result in high productivity and affluent living. (Hayami, 1998, p. 24).

What the above accounts have told us is probably that the institutional knowledge of each economy involved will be important in understanding the true nature of economic growth of many countries in East Asia. In what follows, therefore, I will try to show how the difference in the institutional setup of each country, its historical perspectives, its social and cultural foundations could lead to different sequencing of growth. Nevertheless, in the final analysis, it will be pointed out that in the today's globalised world, the open market system will lead these different countries to the same economic goals of industrialisation and modernisation.

### **China**

As mentioned earlier, the agricultural development in China suffered from neglect from the government when the country changed to

communism in 1949. Forced communes in the late 1950s had shocked many established farmers, resulting in the erosion of incentives and reduction in farm production. The famine in the early 1960s might have rechanneled some of the government expenditure from industries to agriculture, but these measures were only short-lived. Statistics had shown that in agriculture, per capita output in 1977 was no higher than that in 1957. Post-Mao rural economic reform took place with major price increases for agricultural products in 1979, and by 1981 the collective farms were broken up into land that was contracted out to private families to work. At this time, the size of private plots had increased, and most agricultural products could be sold freely in the markets. Peasants also had a greater freedom of choice to work on the farm or off it. Those who had left farm jobs could get work in factories in the cities and towns.

During the Mao period, the industrialisation process in China concentrated on heavy industries such as metallurgical and machine-building industries, which were often inefficient and producing low-quality products. The post Mao period, however, saw a switch from these heavy industries to light industries producing household goods for domestic consumption as well as for export. The low wages and other production costs made Chinese goods very cheap, which had become popular in overseas markets. The success on light manufacturing products such as textiles and garments had helped the Chinese external trade performance greatly, so much that within the period of two decades, China was able to increase its exports by leaps and bounds. Its accumulated international reserves were among the highest in the world. The so-called 'Special Economic Zone' along the coast which were set up in late 1970s attracted large foreign capital and joint ventures, adding the growth of Chinese economy.

### **Korea**

South Korea was always a poor agricultural country until it had succeeded in transforming its economy from agriculture-oriented to industry-based in the 1960s and 1970s. A Japanese colony since 1910,

Korea existed as a base for the Japanese military venture into China. When the war ended in 1945, Korea was liberated and was split into two, North Korea and South Korea. Soon South Korea found itself engaged in another war in 1950 with its northern brother, North Korea, which was being supported by Communist China and Soviet Russia. South Korea quickly received help from the UN systems under the leadership of the US. The end of the Korean War brought on further devastation to the country and economy.<sup>5</sup> Korea had to start from scratch, with the post-Korean War government attempting to improve the agricultural production through land reform increased agricultural productivity. Throughout the 1950s and 1960s, the military and other economic and trade assistance from the US helped sustain the Korean economy so that the Korean government could start its industrialisation process without having to worry too much about needed sources of funds and market outlets.<sup>6</sup>

A major drive toward industrialisation in Korea was said to have started with the seizure of power by General Park Jung-Hee in 1961. Firmly in control in the new Korean government, General Park began his unique brand of state-business coalition to develop the Korean economy. He had struck a deal with several leading businessmen who controlled large business groups (so-called chaebols) to agree to develop specific industries in exchange for government support in terms of credits and other business and economic incentives. This apparent 'picking the winner' strategy appeared to work well for Korea in the beginning as the economy started to grow rapidly. The initial phase of Korean

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<sup>5</sup> From now on the use of word Korea is meant South Korea unless otherwise specified.

<sup>6</sup> Mason and Kim (1980) claimed that South Korea was one of the largest recipients of foreign aid in the world. They pointed out that the US alone supplied US\$12.6 billion in economic and military assistance between 1946 and 1976, the international financial institution an additional US\$1.9 billion, and Japan approximately US\$1 billion. For the country with a population of 25 million, the aid per capita amounted to about US\$600 at the midpoint of the 1960 which was one among the highest in the world at that time.

industrialisation was of course import substitution (textile, fertilisers, food processing, steel products, and so on) but which had given way to export-oriented development strategy quickly. The normalisation of relations with Japan in 1965 brought in large amounts of Japanese direct investment, most of which were export-oriented.<sup>7</sup>

Widespread labour disputes and rigged election in 1972 brought about political and economic to Korea. General Park again seized this opportunity to stage a palace coup and proclaim a new constitution which enabled him to continue to be president for unlimited terms. Shortly after the proclamation of the new constitution, he also announced the 'Heavy and Chemical Industrialisation (HCI) Declaration' of 1973 hoping that the new export-oriented heavy and chemical industrialisation would bring about greater national security and economic development. Under the HCI Promotion Plan, the government would focus on developing or promoting 'strategic industries' such as iron and steel, machinery, non-ferrous metals, electronics, shipbuilding, and petrochemicals. During this authoritarian period from the end of 1972 until the death of General Park in 1979, the relationship between the state and big business became even more intertwined. Political chaos which followed the assassination of General Park brought in another coup, and the government continued

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<sup>7</sup> Both Rhee (1994) and Lim (1998) have argued that the state, no matter how strong it is, needs to work with the private sector or big business in order to achieve liberal market reforms. To Rhee, the authoritarian state became fragile without a supporting coalition with big business. To Lim, every regime needed a set of alliances or coalitions to maintain political survival. State incumbents include, co-opt and reward business only if the private sector was perceived as assisting regime survival. Industrial policy was thus a mechanism employed to maintain political survival by rewarding and punishing the private sector through various measures. The state intervened in the market by means of industrial policy. But the state is not a unitary actor. As Lim (1998, p. 18) had pointed out, within the national government, the interests and preferences of legislators, the presidents, party leaders and bureaucrats are different. In general, politicians are interested in being re-elected. Bureaucrats prefer security in office, career advancement and material advantages. Therefore, the behaviour of the state could be regarded as the outcome of rational choices by self-interested officials acting within particular institutional and circumstantial contexts. In the case of Korea, it was shown that these behaviours converge on a common theme, that is the government had focused its attention on efficiency-oriented private economic management.



its economic controls and financial repression, but this had clearly helped the government to get what it wanted. Indeed, Chris Edwards (1993) had alluded to a frank observation that “no state outside the socialist bloc ever came anywhere near this measure of control over the country’s investable resources”.

So, the alliance between the state and big business in Korea explained the success of heavy industrialisation in the 1980s and 1990s. The success was made possible by the determination of the Korean government and the Korean people to catch up the developed countries, especially Japan. As of early 1990s, Korean economy had attained the status of a newly industrialised country and had been accepted as a new member of OECD.

### **Taiwan**

As soon as the KMT had established a new government in Taiwan, it began to develop the Taiwanese agriculture which was the major economic sector in the island. Agricultural land reform was carried out successfully during 1949-1953.<sup>8</sup> Concurrently with the raising of agricultural output in the 1950s, the government began to build a highly labour-intensive industrial base with emphasis on import substitution. By the end of the first decade of the new development, Taiwan had several industries such as canning, food processing, textile, cement, plywood, and glass. The 1960s saw the Taiwanese government adopting export expansion strategy. A major export-promoting law was enacted in 1960 where the government would give preferential interest rates for time deposits and lend this money at subsidised rates to establish labour-intensive exporting industries. Export processing zones started to flourish in the latter half of the 1960s, together with various export incentives such as tariff reduction and tax rebate. By the end of the 1960s Taiwan was exporting cheap consumer products such as

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<sup>8</sup> This included the reduction of land rent, the sale of public land to tenant cultivators and farm labourers, and the limitation of land ownership per family (no larger than 2.9 hectares), the excess of which was sold to the state.

radios, television sets, refrigerators, sewing machines, synthetic fibres, fertilisers and clothing.

The second stage of import substitution arrived in the 1970s when Taiwan began to establish its heavy industries such as steel and basic petrochemicals to serve machinery and consumer industries. As a result of the two oil shocks in the early 1970s and 1980s, the government was compelled to review its options and decided to promote capital-intensive industries in order to counter the energy dependence of some sectors of heavy industries. The export performance continued to improve throughout these periods, so that by the first half of the 1980s, Taiwan began to enjoy huge trade surplus. By the end of the 1980s, foreign exchange reserves of Taiwan amounted to almost US\$80 billion, one of the highest in the world. To adjust to this new chapter in economic development, the government also began to restructure its financial system in the late 1980s, to deregulate it and make it more transparent and less distorted.<sup>9</sup>

The decade of 1990s saw Taiwan entering an advanced industrialised stage of development. The government continued to provide help to the private sector. In 1992, for example, the Taiwanese government announced its 6-year National Economic Development Plan aiming at upgrading technology the development of 10 ‘newly emerging industries’ (namely telecommunications, information, consumer electronics, semiconductors, precision machinery and automation, aerospace, advanced materials specialty chemicals and pharmaceuticals, medical and health care, and pollution control), and 8 ‘key technologies’ (namely, opto-electronics, software, industrial automation, applied materials, sensors, biotechnology, resource development and energy conservation). At the end of the 1990s, Taiwan is also ready to be a member of the OECD countries.

At this juncture it is interesting to discuss some similarities and differences in the ways Korea and Taiwan have developed their

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<sup>9</sup> This restructuring of the financial sector was one of the reasons Taiwan had escaped the contagion of the Asian crisis in the late 1990s.

economies. It can be argued that both have adopted the same basic tenets of product-cycle and export-oriented industrialisation. Product Cycle Theory as espoused by Vernon (1966) argues that during the introductory phase, a new product was manufactured by a developed country with high technical know-how and skill labour. In the second growth phase the said product became mass-produced and mass-distributed, reaching market saturation point in the mature third phase when the mature product became more capital-intensive and standardised. As the standardised production process permits the utilisation of less skilled labour, the location of production moves to less developed countries. Eventually the process reverses, that is there will be exports of the products from foreign countries into the original home market. The similar 'Flying Geese' model which emphasises the diffusion of technology as the main reason for less developed countries to catch up and close the technology gap with the developed countries.

According to Wade (1990, p. 322), "...Korea's technocrats were not steeped in an anti-big-capitalist philosophy, as were Taiwan's for much of the post-war period. And they faced no ethnic tensions between themselves as outsiders and native business people...The fact the conglomerates acquire enormous economic power is not seen as a threat to the regime as it would be in Taiwan." Both Rhee (1994) and Lim (1998) have argued that the state, no matter how strong it is, needs to work with the private sector or big business in order to achieve liberal market reforms. To Rhee, the authoritarian state became fragile without a supporting coalition with big business. To Lim, every regime needed a set of alliances or coalitions to maintain political survival. State incumbents include, co-opt and reward business only if the private sector was perceived as assisting regime survival. Industrial policy was thus a mechanism employed to maintain political survival by rewarding and punishing the private sector through various measures. The state intervened in the market by means of industrial policy. But the state is not a unitary actor. As Lim (1998, p. 18) had pointed out, within the national government, the interests and preferences of legislators, the presidents,

party leaders and bureaucrats are different. In general, politicians are interested in being re-elected. Bureaucrats prefer security in office, career advancement and material advantages. Therefore, the behaviour of the state could be regarded as the outcome of rational choices by self-interested officials acting within particular institutional and circumstantial contexts. In the case of Korea, it was shown that these behaviours converge on a common theme, that is the government had focused its attention on efficiency-oriented private economic management. In sum, Lim argued that variations in export patterns between Korea and Taiwan can be explained by the interaction of different industrial structures and industrial policies, which result from different political coalitions. This suggests that different political coalitions have been a major factor leading to different patterns of industrial transformation between Korea and Taiwan.

As for South-East Asian countries with the exception of Singapore and Brunei they depended on their agriculture as the initial engines of growth. Apart from rice which is grown everywhere in monsoon Southeast Asia, some countries may develop specialisation in growing certain crops and in a special type of farm management. For instance, until World War II, plantation-type farming in such crop as rubber, sugar-cane, coconuts, palm oil, sisal, tea and coffee played a very important role in the agricultural development of Malaysia, Indonesia and the Philippines. After the war, the role of colonial-run plantations declined, of course, but some countries still depended on the exports of these products but with varying degrees of success. Malaysia continues to do well with rubber (and tin) exports. Philippines always received preferential treatments from the US regarding its major exports thus its market was fully protected. Indonesia however, did not do too well with most of its exports and the economy remained stagnant until late 1960s.

### **The Philippines**

The case of the Philippines offers an interesting example of how agricultural exports provided an early opportunity for industrialisa-

tion. With the protected agricultural exports market in the US assured, the country could consider getting industrialisation earlier. This was done at the end of 1949 with the import and exchange controls actually instituted in response to a balance of payments crisis. The protective effect of import restrictions gave rise to new consumption goods industries. Therefore, as Power and Sicat (1971) explained, an industrialisation process of the 1950s favoured the finishing and assembling of imported semi-manufacturers for sale in the home market, in contrast to the earlier period which was dominated by the processing of domestic raw materials for exports. Now two lines of protection were at work: in the American market, it was protection against rival tropical agricultural products; and at home, it was the protection for the manufacture of consumption goods against all foreign supplies.

Perhaps we should go back a little and mention that the balance of payments crisis referred to above was partly brought about by much over valuation of the currency and the resulting enormous consumption goods imports. The import and exchange controls that followed provided more or less inadvertent protection for the manufacture of consumption goods. Although import decontrol was effected in the early 1960s, a highly protective tariff was still permitted. By then the Philippines had gone into more than a decade of inward-looking import-substituting industrialisation. The 'easy' or what Hirschman called the 'exuberant' stage of import substitution had already been passed as the taking over of an existing market for consumption goods from the restricted foreign suppliers was more or less completed.

The second stage of import substitution was more difficult because the limited domestic market was already covered. There were at least two alternative options: to move back to the earlier stages of the production process, i.e. backward-linkage import-substitution or to break into the export market. The government decided to do both but it needed assistance in capital investment both from inside and outside. Therefore, in 1967, the Investment Incentive Act came into being. It was one of the most comprehensive laws that aimed to attract domestic and foreign

capital. Investment could be registered as preferred or pioneer with differing degrees of incentives, and the responses from such countries as Japan and Taiwan were quite impressive. However, the overall economic conditions were still not so good. Primary export was still quite limited. No doubt, at the end of 1960s, the industrialisation policies of the Philippines were still being criticised as unsatisfactory for the following reasons: (1) they supported inward-looking manufacturing; (2) they depended excessively on imported inputs; (3) they caused excessive reliance of the economy on a few primary exports, owing to the failure of the industrial sector to develop as a source of foreign exchange; (4) they created an over-concentrated regional development; (5) they caused greater inequality of income distribution; (6) they neglected wage-good industries; (7) they slowed the growth of industrial employment; and finally (8) they were simply technically and economically inefficient (see Power and Sicat, 1972: Chapter 5).

So much for the formative years of the Philippines import-substituting industrialisation. In the early 1970s however, the economic conditions improved a little due to a boom in commodity prices and a rise in foreign trade. But import liberalisation was still not drastic enough to erase the inefficiency of protection. Nevertheless, the government paid more attention to small and medium scale industries to help develop local entrepreneurs and generate more employment, and to an export processing zone policy in the hope to promote more exports.<sup>10</sup> Still, overall, the industrial performance of the Philippines was still considered poor. And Professor Oshima (1983: 53) had attributed this poor industrial performance to the failure to improve the efficiency in its up-stream capital-intensive industries (such as steel products, chemicals, paper and pulp, and so on), and thereby obstructing the growth of labour-intensive industries through ‘cost and quality cascading’ making export expansion difficult.

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<sup>10</sup> However, Peter Warr (1989) had pointed out that the net benefit from such export processing zone might not be very high at all

This is just one among many problems faced by Philippines in the decade of 1970s. The country was under Emergency Rule then and was governed by Presidential decrees. The abuse of power and many inappropriate overseas borrowings and spendings had plunged the economy into debt crisis several years later. The well-known political event had brought about the change in the government in 1986, and the new government is trying its best to cope with the problems. So far its market-oriented approach to problem-solving has shown some signs of success. Evidence during the first half of the 1990s had shown that the government under democratic regime adopted market approach to solving the existing economic problems. Price subsidies and controls were reduced or dropped, privatisation of state-owned enterprises increased, government spending streamlined to reduce fiscal deficits, balance of payments improved through increased remittances of Filipino workers abroad, and so on. Although the growth in the Philippines economy was slowest in East Asia in the early 1990s, this slow growth had somehow cushioned the Philippines from severe economic downturn that had affected its faster growth neighbours in East Asia during the latter half of 1990s.

### **Malaysia and Thailand**

While the case of the Philippines which used to be the front-runner in terms of development in Southeast Asia could hardly be called a success story until very recently, the cases of Malaysia and Thailand certainly can. These two neighbouring countries are well-endowed with land resources where Malaysia had made the best use of them by growing rubber and oil palm, and Thailand by growing rice and other upland crops. Both started their modern development efforts more or less at the same time at the end of 1950s, and the development strategies of both countries were influenced greatly in the beginning by the thinking and recommendations of the World Bank. The 1955 World Bank Mission to Malaysia and the 1957 Mission to Thailand produced similar kinds of recommendations, that the private sector be given

a major role in development efforts with the government providing infrastructure and institutions for further growth, and creating fiscal and monetary conditions conducive to investment (see World Bank 1955 and 1959). Both countries were recommended to increase the productivity of their agriculture and diversify it further while concurrently pursuing their industrialisation processes.

These recommendations were followed quite closely.<sup>11</sup> In 1958 the Pioneer Industries Ordinance was introduced in Malaysia, providing tax relief on the profits for 'pioneer firms', the length of relief depending on the company's size of capital investments. One year later the Industrial Investment Promotion Act was passed in Thailand with more or less similar provisions for investment incentives. Also in Thailand a great deal of administrative and organisational changes took place in preparation for launching of its first National Economic Development Plan in 1961. In Malaysia, the First Malayan Plan was already in existence since 1956. When Malaya was unified with Sabah and Sarawak, the Plan was changed to the First Malaysian Plan in 1968. Perhaps one statement made in this First Malaysian Plan captured the spirit of economic development policies of not only Malaysia but of Thailand as well. It said: The government will continue to leave the operational role in the industrial sector largely in the hands of the private enterprises, the government will offer coordinated and purposeful assistance to private industrialists but the attainment of the objectives for industrial development will depend substantially upon the response of local and foreign entrepreneurs to the incentives and assistance offered (quoted in Teh, 1977: 29).

Since then Thailand had been quite successful with its agricultural diversification. Rice was no longer the only major crop for export; it was supplemented by maize, kenaf, sugar cane, cassava and mung bean. Malaysia was also successful in its drive to expand oil palm cultivation.

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<sup>11</sup> In Malaya, the Working Party set up after the World Bank Report did not agree with the incentive program of the Bank, and proposed a new program of their own.



While these traditional and new agricultural products continued to earn foreign exchanges for the countries, industrialisation developed. It should not be surprising to learn that the type of industries being developed at first was import-substituting, light manufacturing industries because of the limitations in technology, skill and capital. But the protection in Malaysia was quite moderate and tended toward specific, 'made to measure' type; it was much higher and less systematic in Thailand. At the end, however, both had realised that they had to move on. Malaysia took an earlier initiative with regards to export-oriented industries in the early 1970s, providing export incentives and other facilities such as export processing or free-trade zones. Thailand stayed a little longer in its import-substitution phase, and did not switch to export promotion until the middle of 1970s. But once this was done, the outcome has been quite dramatic. The exports of manufactured goods such as textiles, garments, footwear, electronic circuits, and processed foods rose on the average of 8 to 9 percent per year toward the end of 1970s, and even higher in the 1980s. In 1988 which was the best year for Thailand in recent history, its total exports increased almost 35 percent over the level of 1987. The manufactured exports had already surpassed the traditional agricultural exports since 1984, moving Thailand one step closer to becoming a NIC. Apart from export growth, Thailand because of its relatively free and open economy with a relatively stable political and social system, also attracted a large and continuing inflow of foreign direct investment, and increasing number of tourists.

For Malaysia, it seems that with good performance both in its agricultural and industrial sectors, Malaysia would have become a NIC some time ago. But a racial problem between the native Malays and the Chinese which erupted in the riot in 1969 convinced the Malaysian leaders that economic development must sufficiently improve the status and welfare of the majority of poorer Malays as well. So the so-called New Economic Policy (NEP) was instituted in the Second Malaysian Plan in 1970 which seemed to detract a little from the normal course of development emphasising growth and expansion alone. The Plan with

NEP would do at least two things: One was to reduce and eventually eradicate poverty, by raising income levels and increasing employment opportunities for all Malaysians irrespective of race; and the other was to accelerate the process of restructuring Malaysian society to correct economic imbalance. In short, the economically-disadvantaged Malays (the bumiputras) would be given favoured treatments whenever and wherever possible. In a more specific term, the government would like to see Malay participation in the ownership and control of the corporate wealth in the country. It was planned that by 1990, Malays would own and control 30 per cent of the nation's share of the capital instead of a mere 2 per cent in 1970. Over the same period, non-Malay shares would increase from 23 to 40 per cent and foreign share ownership would be reduced from 62 to 30 per cent.

The merit and demerit of NEP will be a subject of debate for some time to come, but the apparent economic success of Malaysia in the 1980s and 1990s where the indigenous Malay population were shown to be doing very well already attested to the merit of this policy, which seems to enhance the image of its champion, the current Prime Minister, Dr. Mahathir Mohammad. For Thailand, this kind of racial trade-off between the Thais and Sino-Thais did not happen but inequity from development still exists, between farmers and non-farmers, rural people and urban people, which needs to be corrected in the future.<sup>12</sup> In the mid-1980s in the face of deep recession, the NEP was down-played as it became clear that this policy could be implemented under expansionary economic conditions. In 1991, the NEP was replaced by the NDP, the National Development Plan, which refrained from setting quantitative equity targets (Ariff and Zainal, 1998, p. 161). The most important part of this policy is 'Vision 2020', a brainchild of Dr. Mahathir's plan to

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<sup>12</sup> Although it may seem that the development of the Thai economy did not follow the lead of a charismatic leader, like Dr. Mahathir in the case of Malaysia, but the Thais seemed to accept the collective leadership of the executive branch of government through the cabinet or council of ministers. The government may lack effective prime minister, but once he is in power, he can command respect through his office and the prestige of the cabinet.

make Malaysia an industrialised country by the year 2020.

It should be pointed out that the rapid growth of Thai and Malaysian economies in latter half of the 1980s and the first half of the 1990s came mainly as a result of similar strategic policies which included liberalised trade and investment regimes which had led to substantial increase in the manufacturing production and exports, reduced role of the state through increased privatisation of state-owned enterprises, deregulation and decontrol in the financial and capital markets, and freer and less restrictive labour markets. Both could claim to the 'Fifth Tiger' of East Asia in the 1990s (after Korea, Taiwan, Hong Kong and Singapore), although with higher income per capita and greater exposure to high-tech industries Malaysia appeared to have a slight edge.

### **Indonesia**

A racial problem was experienced in Indonesia too. As mentioned earlier, in the pre-war periods the Europeans and Asian minorities mostly owned and controlled the primary export trade of Indonesia. After the independence, the economic nationalism predominated. Most Dutch enterprises were disbanded or nationalised and the business activities of the ethnic Chinese was subsequently suppressed (Wong, 1979: 58). The burden of the Indonesian government to manage the economy was simply too much. Yet they went ahead with a special plan (the Economic Urgency Plan) to sponsor large-scale industrial plans. But the plan failed due to administrative inefficiency among other things and was later replaced by the First 5-year Plan in 1956 with a different strategy with respect to industrialisation. This time it called for a curtailment of the scheduled industrialisation programs, and an end to private enterprise financial assistance, and a concentration on the development of state enterprise.

This substantial state interference with economic activity was in part a reflection of ideological convictions, but in part a necessity to secure large amounts of resources to carry out its political and economic programs. A series of mismanagements such as government controls and highly over-valued exchange rate brought about galloping inflation and

the further erosion of the export sector, and eventually led to the downfall of the government. The new government led by General Suharto quickly dismantled the basic idea of government interference, maintained price stability, and reduced direct control, freed up foreign exchange system, gave high priority on export trade, encouraged private investment, and quickly rehabilitated the economy's infrastructure, particularly transport, communications, power and irrigation. These improvements led to a substantial rise in foreign capital inflow, and private foreign investment contributed to the rehabilitation of the export sector as well, particularly in extractive industries.

By 1969, the export sector had embarked upon a course of genuine expansion. The first oil price increase in 1973 helped Indonesia even more. Between 1970 and 1977, the export earnings of Indonesia rose more than 9 times. Out of this monumental change, one began to see also a change in industrial development policy. Now the maximum growth of extractive exports and capital-intensive import substitution were encouraged. Investment strategies called for accelerating inflow of foreign capital for petroleum, minerals and lumber, and for capital-intensive manufacturing. As Paauw (1980) had observed, with such fast growth and the need to maintain it, the government's resistance to control wavered and an over-protected import-substitution regime was gradually recreated. The main trade policy was to maintain an over-valued exchange rate and a reimposition of controls over imports.

Meanwhile large export earnings and government revenues enabled the increased subsidisation of the rice production, and self-sufficiency was attained in the early 1980s. But that was also the time Indonesia faced the adverse conditions of an oil-price slump. It had then realised that to become too dependent on oil exports alone could get the economy into trouble too in a situation like this. So, another structure adjustment was in order. The trade and exchange rate policies were liberalised; the currency was devalued several times; various controls were lifted; and many administrative procedures were streamlined to make them more efficient. Moreover, the non-oil exports received

greater government promotion. As pointed out Nasution (1997), these heavy doses economic liberalisation and reforms throughout the latter half of the 1980s and the first half of 1990s in all major policy areas (exchange rate policy, fiscal policy, financial and monetary policy, trade policy and other regulatory framework policy) had helped Indonesian economy grow very fast. If there were any weaknesses in the Indonesian development during these periods, they included the lack of adjustment in the highly protected ‘strategic industries’ such as automotive industries, petrochemicals and infrastructure projects, forest-based industries, and state-vended products (Nasution, 1997, p. 548). This had given rise to transfers of monopoly rights from the state to a number of politically well-connected private companies, which later had become the seeds of severe economic crisis in the late 1990s.

### **Singapore**

Somehow the case of Singapore needs very little explanation as to how it could develop so fast and so well. It has been very well-known that Singapore’s economy operates on free-market competition principle with disciplined and highly skilled population and very able, resolute and far-sighted government leadership. But in the beginning, Singapore started just like most other developing countries in Southeast Asia, that is import-substituting manufacturing industries with all the usual ‘infant industry’ protective measures. This was during the first half of 1960s, but soon after Singapore was dropped from joining with Malaysia, the industrialisation policy changed. Now Singapore must earn foreign exchange quickly and increase competitiveness of domestic manufacturers through exposure to international competition. It enacted the Economic Expansion Incentives Act which granted tax concession on profits from exports of domestic manufacturers, and privileges to direct foreign investments geared to export markets. Since Singapore had a very strong government, unencumbered by political opposition, it could provide leadership and confidence (from the foreign investor’s point of view) unmatched in other countries in the region.

Therefore, in a space of a few years, Singapore's manufacturing sector could become export-oriented. It kept the momentum of a good system by massive investment in public housing and city planning. As an efficient, and shrewd, free trader, Singapore benefited a great deal from favourable international economy during the 1970s. It had become not only a manufacturing and trade Centre, but also a financial and banking centre of Southeast Asia as well. While the international economy slowed down abruptly in the early 1980s coupled with a period of overexpansion in Singapore threw Singapore into a recession for the first time in 1985, it managed to get out of it within one year by concentrated efforts from the government and the private sector. Today, Singapore is the strongest economy in the Southeast Asian region. It has enjoyed good export performance and a high and stable rate of growth rate despite its currency becoming much stronger than before, and despite the economic crisis that encircled this small city-state. And although its case may not be emulated elsewhere, at least it has shown that to rely on efficiency concept in production and trade can be rewarding indeed.

What can we learn from the diversified pictures of development in the 8 developing East Asian countries above? I have presented the above account in order to be able to make the following conjectures that may be useful for further investigation.

(a). The growth and development of the majority of these developing East Asian countries depended very much on the directives, guidance, plans, intention, techniques, preferences, wishes, or similar behavioural patterns of political leaders in each country or economy. In China, it was the wishes and techniques of Mao Zedong and Deng Xiao-Ping that defined the growth and development of the Chinese economy. In Singapore, it was the strategy of Lee Kuan Yew which transformed Singapore from a small port city to a thriving industrial and business centre for East and South-East Asia. In Indonesia, the decision and guidance of Suharto to modernise and liberalise the Indonesian economy cannot be disputed. In Malaysia, the forceful policy directives that aim to lift the economic role of the Malays by Dr. Mahathir must

be regarded as one of the most successful socio-economic policies in modern history. And so on. To explain the growth of East Asia effectively it is probably not possible to avoid references to the experiences of these political leaders.

(b). To understand the mentality and techniques of these leaders, and the circumstances under which these leaders were able to operate one may have to resort to analysing some vague concepts that are often associated with Asian culture such as 'Asian values', Confucianism, innate respect of authority, loyalty to protectors, closeness to families, belief in patron-client relationship, and so on. There are certain aspects of these socio-cultural characteristics that are unique to East Asia the full knowledge and understanding of which could enhance the explanation of policies in East Asia.

(c). Most of these East and South-East Asian leaders may assumed their roles differently, but at the end they seemed to follow the same principle of market mechanism. Most would go along with economic efficiency considerations in most policies, and would opt for free and open trade rather than distorted and restricted trade and investment. This is one of the reasons why the Asia Pacific Economic Cooperation or APEC is doing well in this region: because economic and political leaders in this region believe in voluntary, free and non-discriminatory trade and investment. The free market orientation can also be used to explain the overall rapid economic growth in the region.

#### **4. Political Economy of Current Economic Policies**

How to explain a policy change in the context of the interplay of roles of different people or group of people? As the interplay of these roles requires decision-making or conflict-solution which entail the use or reference of power, which is in the realm of politics or political science, whereby the decision made or solution reached represents a certain choice with its full implications of the benefits and costs of resource allocation, which is in the realm of economics, the whole

episode is often referred to as the political economy of policy or decision making. It is the marriage between these two powerful disciplines that makes the study on the political economy of growth very relevant and very useful in the economics of development.

As suggested by Bates and Devarajan (1999), and Lyn Squire (1999) there are 4 stages in the explanation of policy changes. The first stage is the identification of the preferences of key individuals or groups of individuals. But this will lead to action unless these individuals or groups can organise themselves for effective action, and unless they can promote their case through the existing political structures whatever that may be. This is Stage 2. Stage 3 occurs when there are deliberations within structures and arenas of government whereby other additional players or actors from outside (international actors) can come to play a part. Finally, Stage 4 is reached when there are policy choices by the government. Four groups of peoples (or institutions containing groups of people) are identified as important for most studies of the political economy of growth. They are (a) interest groups; (b) political party; (c) bureaucracy and institutions; and (d) international actors.

There are of course more than one ways one can describe the stages of policy making or policy change. Ichimura Shinichi (1998), Director of the International Centre for the Studies of East Asian Development, for example, divides the process of policy-making into 3 stages namely the analysis of economic situations and prescription of policies, the process of decision-making involving various groups of people in society, and the implementation of policies. Based on the case of Japan, the process of decision-making will involve five groups of participants as follows:

1. Government bureaucrats
2. The Liberal Democratic Party (LDP)
3. Special interest groups
4. Government ministers
5. The Prime Minister



These five participants or actors will possess different sets of preferences which they will, at appropriate time and opportunity, make known to others (as in Stage 1 of Bates and Devarajan, and Squire), and will launch into action also at appropriate time and opportunity (Stage 2 of BDS). The most important part of the process of decision-making in Japan lies in the discussion and coordination in political parties and pressure groups, ending up with the parliamentary deliberation and cabinet decision. In Ichimura's framework, the process of policy implementation is still considered part of decision-making, as other factors will still have to be decided, such as the amount of resources allotted, that is, budget; the personnel for carrying out policies; the responsible government organisations; and the private sector's response to the policies.

In yet another way of looking at the political economy of decision making, I want to suggest that growth policy can be looked upon as a product or a good, either private or public (or both), and there are supply and demand of this good in the market. This good has a price associated with it, which determines the level of utility from the supplier or demander point of view. The government is often looked upon as the major supplier of growth policies, and it can draw its utility from the provision or supply of such policies. This utility can be in the forms of the successful performance of the government recognised by the people via its popularity in the ballot box, or the economic rents extracted from the demanders of such policies, or even corruption or corrupted practices of some government officials or bureaucrats. The structure of the parties involved in the demand and supply of growth policies is, therefore, very important in the study of the political economy of growth in each country. On the demand side, the people or parties involved may include (1) the general public, (2) economic pressure groups or interest groups, (3) mass media, and (4) academicians. On the supply side, the people or entities involved may include (1) power elites (mainly politicians), (2) bureaucrats or technocrats, (3) political parties, and (4) the parliament. Each party or entity on both sides will interact to influence the adoption and implementation of a growth policy (or any policy for that matter) What are these roles?

This point needs further elaboration. I am going to refer to the case of Thailand as an example of the political economy of policy-making. Following the pioneering work by Rangsun (1989), economic policy could be regarded as a commodity like any other goods and services, with its own supply, demand, and market. The formulation of these economic policies could be looked upon as an outcome of the interactions between the above supply and demand in the economic policy market. Economic policy also has the characteristic of a public good as its availability provides joint consumption for all and, as a rule, no one could be excluded from enjoying it. In addition to a partial analysis of supply and demand of a commodity which normally assumes constant income and taste, a proper analysis of the determination of economic policy must take into account such institutional factors as the influence of world economic system and the “super-structure” of the domestic economic system which includes political system and culture, customs, traditions, and other institutional relationships in the society.

Take the supply side of economic policy first. According to Rangsun, there are four groups of players or actors on the supply of (public) economic policies in Thailand. They are (1) power elites, (2) technocrats, (3) political parties, and (4) the parliament. The system under which the first two groups would operate would constitute what we have referred to in this paper as a bureaucratic polity, although the composition of the first group, the power elites, might not be bureaucrats in the commonly understood sense. The power elites in Rangsun’s view consist of members of the cabinet who possess political power, and the high-ranking officials at the ranks of director-general in the armed forces and the civilian bureaucracy.

Within this group, the mechanisms for policy making and implementation are already in place. We have the prime minister and his ministers as the top political officers who decide on policies, and the permanent secretaries and directors-general who would be responsible for the implementation of such policies at the macro levels. The process is completed with the inclusion of the second group of middle-

level executive officers (MLEO) in the bureaucracy who would be generally known as the technocrats or bureaucratic technocrats.<sup>13</sup> These are the groups of people who actually have the duties to oversee the execution of economic policies, monitor important changes in the economy, analyse the current economic problems, project likely future economic events, and suggest or recommend courses of action or new economic policies. Normally the MLEOs in the following government agencies are included in this group: The Bank of Thailand, the Ministry of Finance, especially the Fiscal Policy Office, the Budget Bureau, the National Economic and Social Development Board (NESDB), the Ministry of Agriculture, especially the Office of Agricultural Economics, the Ministry of Commerce, especially Departments of Foreign Trade and Internal Trade, the Ministry of Industry and the Ministry of Communications.

In a slight difference from Rangsun's approach described above, I would like to propose the rearrangement of the composition of the two bureaucratic groups above that will reflect a better analysis of the situation. It would classify the power elites to include only members of the council of ministers or the cabinet who are political office holders at the highest level while relegating civilian officials of the ranks of permanent secretaries and directors-general and military officers of equivalent ranks to the second group and simply recall them Executive-Level Officials (ELOs). This slight modification should give a better picture of the system of policy determination with the political "bureaucracy"<sup>14</sup> at the top and the executive permanent bureaucracy just below it. The power

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<sup>13</sup> As the bureaucrats are here defined to include only the middle-level executive officials and up, many of these bureaucrats are those who are in positions to apply technical knowledge acquired through studies, training, or experience to the problems at hand. These bureaucrats will be referred to as technocrats. Unless important distinction between the two needs to be emphasised, the terms bureaucrats and technocrats may be used interchangeably.

<sup>14</sup> If bureaucracy refers to rules governing the activities of personnel in the public sector, then ministers or political officer holders must fall under a category of bureaucracy where the exercise of their political power is subject to established, publicly-recognised rules such as the scope and limitations of their power, the obligation to follow certain legal procedures, the accountability of their duties, and so on.

elites may come and go through the change of government by various means, democratic or otherwise, but the permanent bureaucracy has a life of its own which is in a certain way quite independent from the political organisation at the top. To be included also in this group of bureaucrats/technocrats are publicly-appointed policy advisers to the power elites, notably the economic advisers to the prime minister, ministers, or the economic cabinet.

The other two groups on the supply side of economic policies are the political parties and the parliament. As will be shown later, despite the importance of these institutions in a democracy, their roles in the determination of economic or other public policies in Thailand are neither effective nor impressive. The political parties are involved in the making of public policy through the initiation or introduction of a bill to the parliament, and such a bill will be deliberated and voted by members of parliament before becoming law.

On the demand side, Rangsun identified four groups of people or organisations who were likely to be involved in the demand for any economic policy. They were (1) the general public, (2) economic pressure groups or interest groups, (3) mass media, and (4) academicians. The position of the general public as the target group upon which an economic policy would be applied is obvious and need no further elaboration. It is within this large group of people or population that the demand for economic policy or service would not be revealed<sup>15</sup>, therefore such economic policy must be provided by the state as a public good. An economic pressure group or interest group would be a smaller group than the general public and has clearly identifiable area of interest or concern. The mass media, especially daily newspapers and other magazines, would function in the capacity of the sounding board of the demand for public policy from their readers and the demander of certain public policies themselves. Finally, the academicians in

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<sup>15</sup> This is a classic case of non-revealed preference of public good demand by the people who are more inclined to be free riders to avoid paying for its supply either through taxes or user-charges.

Thailand are, at times, quite effective in suggesting or pressuring for the establishment or change of certain policies. However, the records of success of this last group are uneven and unpredictable.

With the main actors identified both on the demand and supply sides, the determination of an economic policy would come as a result of interactions among these groups. Take a simple case of a rice price support policy. The demand for such a policy could originate from the rice farmers or the rice farmers' group who express their concern or demand through their parliamentary representatives or through the news media or the academicians. The executive officials who are monitoring the existing economic situations may be aware of the need to do so already and would either inform the minister involved about the plausible course of action or receive the policy directive from such minister to carry out policy implementation. If a law is already available which gives power to the appropriate agency to act, such as the disbursement of public funds, then such action will be taken. If a new law is required, then the department involved in cooperation with the government party or parties will draft a bill to be submitted to the parliament for consideration and final enactment. As the political system of Thailand follows that of Britain where members of the executive branch of the government (the cabinet) are drawn from the legislative members of parliament, the executive branch has a traditional superiority over the legislative branch. In other words, what has been determined or approved by the cabinet or by government party will also pass the vote in the House of Representatives. Occasionally the appointive Senate or Upper House may disagree with the decision of the Lower House but the constitution will always provide necessary rule for members of the lower house to override such disagreement by members of the upper house. A law is then passed and enforced by the department concerned.<sup>16</sup>

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<sup>16</sup> But of course the demand for policy is not always satisfied if the supplier could not or would not to supply it within the circumstances. This is where the interactions (and struggles) will continue between the two sides of policy markets until some kinds of solutions come out.

Under this straightforward and mechanistic procedures of policy making, it seems that the major players of this economic policy making, especially on the supply side, have more or less equal role in formulation, announcement, and final execution of economic policies. But in reality, the bureaucratic sector has played a much greater role in the determination of economic policies in Thailand.<sup>17</sup>

It may be seen that there is not much difference among the above views regarding the core involvement of various individuals, or groups of individuals or institutions in the process of policy-making. Each country with different development backgrounds, political, economic and social systems, may have its own unique institutional setup, but the analytical process should be the same or similar. On this note, let us look at few of the selected policies to see how we can address the issue of the political economy of such policies in the context of developing East Asia.

#### **(a) Overall Growth Policy**

The emphasis on where the country or economy is heading can be the outcome of intricate and complex interplays of power and interests from various groups of people and institutions. To give just one example: the economic crisis in Thailand was thought of by some as the result of the Thai economy opening up too fast, and the Thai people exposing too much to the globalised world economy. A new development policy calls for greater self-sufficiency in the ways the country responds to economic and social changes in the world. Many people will be involved in the deliberation of this prospective growth policy. Other questions regarding overall growth policies in other countries may also be relevant. Why China decided to abandon the Socialistic ways of developing its economy? Why Korea decided to go all out for heavy industrialisation in the early 1970s? Why Singapore abandoned the high-wage policies in the late 1980s? And so on.

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<sup>17</sup>For further detail on the interplay of power between politicians, bureaucrats, and business people in various policies in Thailand, see Medhi (1998).

**(b) Trade Policy**

Most countries in East Asia depend on their external sectors as the blood line for their economic well-being. Most have adopted export orientation and gradual tariff reduction and other trade liberalisation as their major trade policies. The issues that may be discussed include how each country adjusts to the impact of expected greater trade liberalisation in the future, who are affected by this liberalisation, what alternatives these countries have in coping with the impending freer trade policies, and so on.

**(c) Exchange Rate Policy**

With Malaysia the only exception, all other 7 economies have now adopted flexible exchange rate policy. The history behind each economy coming to this policy position can be very varied indeed. Many had adopted fixed exchange rate or multiple exchange rates in the past but today used one flexible exchange rate policy (China, Thailand, and Korea are some examples). There are reasons for doing so such as the desire to protect domestic industries, to reduce uncertainty in trade, to reduce the cost of domestic production, but in the end, they had abandoned all the above because the economic costs involved in the fixed and multiple exchange rates exceed the perceived benefits.

**(d) Expenditure Policy**

Government budgeting is one of the most important domestic policies in any country. Each country would have different systems regarding budget preparation, approval, execution and evaluation, and each of these steps of the budget cycle can involve a very large number of policy players. Growth can be delayed or stalled if the budgetary mechanisms are defective. Therefore, one popular topic in economic development in many of these East Asian countries is budgetary reforms.

**(e) Tax Policy**

On the reverse side of budgetary policy is tax policy. Most East Asian countries with some exceptions of the NIEs depend on indirect taxes as a major source of their public revenues. Any tax change will affect different people differently, and the different distributive effects can be a very important reason why a certain tax, say inheritance tax, is so difficult to be instituted, and why a certain tax, say consumption tax, has become more popular among free traders. The political economic explanation of certain tax changes in each of the 8 economies could supplement the traditional analysis of tax changes that look at the incidence and the economic aspects of these changes only.

**(f) Monetary Policy**

The causes of economic crisis that had plagued many East and South-East Asian countries at present can be traced to the mismanagement of their financial sectors. This should make monetary policy a closely observed public policy in the post-crisis period. Naturally the independence of the central banks remains a very important issue to be debated in these countries. But more than this, it is also important to understand the scope of activities of these central banks: How closely they need to monitor money supply? What other financial instruments are needed in the future? How to regulate and provide supervision to banking and other financial institutions? Should inflation targeting be a major goal or objective of these central banks today? And so on.

**(g) Price Policy**

To continue on the last heading, increase in the price level or inflation is one of the most feared economic conditions of most government leaders. Inflation policy can include appropriate implementation of monetary policy, but it can be extended to cover other aspects of policy determination as well such as exchange rate policy (undervalued or overvalued currency), industrial policy (more production in the rural areas to save costs), protection policy (import tax reduction to reduce



industrial protection, leading to lower prices of products). Regional price differences within one country can also create a major economic and political problem.

#### **(h) Investment Policy**

Foreign direct investment (FDI) provides one of the fastest routes toward larger capital accumulation and production which lead to faster economic growth and development. To make up for foreign exchange gap as well as technological knowledge gap, developing countries rely on these FDIs to move up quickly their development ladders. The so-called ‘investment incentives’ are standard packages that these recipient countries offer the investing countries, be they tax concessions, preferential treatments, or special regulations regarding movements of personnel and profit repatriation. But FDI does not depend on these incentives alone. Indeed, it is often found that other factors such as political stability, business transparency, and trust in the political and economic systems are better explanations for inflows of FDI. It is interesting to compare the reasons for FDI in each of the East Asian economy.

Table 1 gives a comparative picture of some important macroeconomic indicators in 8 East and South-East Asian countries during the last 10 years or so. It will help us see the trend of macroeconomic changes across the region, which will in turn help us notice regional differences and launch further investigation.

### **5. Case Studies of the ‘Turning Points’**

While the political economic explanations of the above policies are of great interest to those who seek deeper understanding of the process of growth in developing countries, it is obvious that not all policies are of equal importance. Some policies may be more important than others with regard to the impact they would have on the economy (measured in terms of income or number of people affected). In addition to the

analysis of the political economy of policy-making in the above section, therefore, this section proposes studies on specific policy changes which have momentous impacts on the economy in question. These policy changes are often associated with events that caused major changes in the country or economy. Those changes may be long-term in nature, but they can also be short-term but the impacts must be large and noticeable. We call these events ‘turning points’ which vary from one country to another. Each country normally has more than one turning points of major importance, but at least one most, or more, important turning point will be selected and discussed in some details. This discussion forms part of the case studies that add to the main body of the political economy of growth.

Going down the list of 8 East and South-East Asian countries, it is possible to select one turning point in each country as follows:

#### **(a) China**

As mentioned in Section 3 above, China spent 30 years experimenting with economic development under communism to an unsatisfactory result. During these 3 decades, the Chinese people had gone through forced collective farming, forced heavy industrialisation, political turmoil, and debilitating famine. Only after Mao’s death in 1976 and the rise of Deng Xiao-Peng in 1978 that China began to change to market economy. The rise of Deng’s power and his economic philosophy and practises is rightly a major turning point in modern Chinese economic history. The political economy of this turning point not only will enhance the understanding of the present Chinese economic system, it also will help the understanding the course of action regarding current and future economic development that the modern Chinese economic leaders are likely to take.

#### **(b) Korea**

The decision to switch to heavy and chemical industrialisation by President Park Jung-Hee of Korea in 1973 qualifies for an important

turning point in the Korean economic history. In the ensuing 6-7 years, the Korean economy had gone through enormous changes, good and bad. The political economy considerations that influenced Park and his technocrats and advisers, and their running relationship with chaebols must be looked upon as very crucial and very interesting. A close analysis of this turning point may prove or disprove the effectiveness of coalition theory between the state and big business.

### **(c) Taiwan**

Korea and Taiwan are often compared as to their adopted development strategies. Korea was known to favour large enterprises (LEs) whereas Taiwan small and medium enterprises (SMEs). The conditions under which the Taiwanese leaders decided to go the SME route are certainly different from the conditions faced by the Korean leaders. But the support from the state was probably the same, that is the Taiwanese government still had to provide concessionary loans and technical services to these SMEs. The analysis of the political economy of this policy turning point which started in the early 1980s would be very useful.

### **(d) Singapore**

After successful import-substitution policies during 1959 to 1965, and export orientation policies during 1966 to 1973, the Singapore government embarked on a new phase in its development. The Industrial Restructuring Phase which started in 1973 was certainly an important turning point for Singapore. The government no longer wished to keep on promoting the export expansion of such traditional items as textiles, garments, electronic components and ship repairs, but to encourage investments in skill- and technology-intensive sectors such as computers, electronics, machinery, and pharmaceuticals in order to generate more value added. A high-wage policy was adopted to force new industries to move away from low-tech, low value-added, labour-intensive activities. Even unskilled foreign workers were affected by this policy when

their wages were subject to a levy to force higher wage for Singaporean workers. This policy was successful, as Singapore was able to move up to technologically sophisticated ‘upstream’ manufacturing activities towards the end of 1970s and early 1980s. How can we explain the origin of this policy?

#### **(e) Malaysia**

Without a doubt, the New Economic Policy of 1970 was a turning point for Malaysian economic development. Malaysia today saw an enormous improvement in the life and livelihood of indigenous Malays. To boldly adopt this policy in the face of explosive ethnic problems required a deep political economic understanding of the situations at that time. Not only the ethnic problems that the Malaysian government must face, it also had to face the choice of economic strategies to move the economy forward quickly.

#### **(f) Thailand**

The economic boom in Thailand in mid-1980s had changed the picture of old Thai economy completely. The development was not only rising; it had shifted up. The ensuing bubble economy created a sense of euphoria that fooled most people, including the Thai monetary authorities who jumped on extensive financial liberalisation. It is this financial liberalisation and its unintended results that gave rise to the financial and economic crisis in July 1997. Who were involved in these decisions, and why?

#### **(g) Philippines**

On looking back, the most prosperous economy in South-East Asia in the post-war period, had turned into ‘a poor man of Asia’ in the 1970s and 1980s. The long years under authoritarian rule of President Marcos were to blame for this. The end of President Marcos and the beginning of President Aquino in the year 1986 was an important turning point in economic strategies and management for the Philippines. But the

success in the new development policy is hard to come by. Why? Despite the popular support of the new government, many public policies were ineffective (land reform policy, for instance). What are the political economic reasons for the relative lack of success of these 'People Power' policies?

#### **(h) Indonesia**

The political event that saw the rise to power of General Suharto in 1965 can be looked upon as an important economic turning point in Indonesia. But nothing extraordinary happened in Indonesia in the first 20 years under Suharto's rule. Indonesia was blessed with discovery of oil and good oil prices in the beginning to the end of 1970s, and the oil money had helped the government provided for infrastructure and social services for Indonesians. It was when the oil price boom faded in the early 1980s that Indonesia faced a new, probably more important, turning point, that is when General Suharto announced his New Order in the early 1980s with sweeping economic reforms, deregulation, and liberalisation. This New Order policies had propelled Indonesia into a most dynamic economic in Asia in the 1990s but with a curious mix of good market efficiency and bad corruption, nepotism and cronyism. The political economy story of the New Order in Indonesia should make a very good case study indeed.

### **6. Conclusions**

In this thematic paper on the political economy of developing East Asia, I have attempted to construct a framework that can be used to study the political economy of growth in 8 selected countries in East and South-East Asia. This framework is based on the power relationships among individuals or groups of individual or institutions (which contain individuals or groups of individuals) in deciding on certain policies that affect growth. In other words, this framework seeks to explain how a certain policy is determined, who are involved, who gains, who loses,

and how to evaluate the outcome of the interplay of these powers in terms of resource allocation and economic efficiency. In order to do this, one must be familiar with political and economic environment surrounding the policies being studied. This entails full knowledge of historical evolution of policies and different individuals or groups of individuals involved with such policies.

The selected 8 countries, namely China, Korea, Taiwan, Singapore, Malaysia, Thailand, Philippines, and Indonesia have developed from long and different histories, under different political, economic and social systems. Yet, I have tried to point out that there are common features that we can discern from the past growth experience of these countries. Some of these common features include the strong and decisive roles of political leaders, the preponderance of power of the executive branch of the government, the tendencies for the population at large to comply with the wish of the government, and general tendencies of these political leaders or other political elite to adopt or follow market-oriented decision-making. With these common features, it is not surprising that these developing East and South-East Asian economies have all grown very fast. Despite the current economic crisis that had troubled many of these countries, it is conceivable that this crisis is of short-term nature resulting from the sudden loss of confidence of foreign investors. It is the sudden and massive outflows of capital in response to the mismanagement in the financial sector that caused the crisis, not the basic or fundamental weakness in macroeconomic management. If this is true, then once the external confidence is restored, and the internal financial system is reformed, these economies could continue to grow rapidly again in the near future.

The above understanding is important as a pretext for the political economy study of various policies affecting growth in these countries. Eight sets of policies are perceived as crucial or important to economic growth. They are overall growth policy, trade policy, exchange rate policy, expenditure policy, tax policy, monetary policy, price policy and investment policy. In this paper, I have explained how each of these poli-

cies could affect growth, and in studying these policies, who could be involved and how. Finally, I have suggested the importance of ‘turning points’ in historical evolution of each country. By selecting appropriate turning points and conduct detailed analysis on the political economy aspects of these turning points, we can gain a great deal of knowledge and understanding of how these turning points had come about, and why they had led to certain outcomes.

The study of the political economy of growth has become an important supplement to the study of economic outcomes of a certain policy. It has broadened the perspective of several policy issues, and enabled the economists and political scientists who normally work independently of each other to come to work together for a better result. It is hoped that political economy studies in each region of the world along the line or framework suggested in this and other thematic papers will enhance the study of economic growth and development of nations even further.

### **Annex A: The Political Economy of Telecommunications Liberalisation Policy in Thailand<sup>18</sup>**

In Thailand today, one of most hotly-debated issues is when and how to privatise state-owned enterprises. And one of the most difficult problems of privatisation are found in the privatisation attempts and efforts in the telecommunications industry. This is the area where many institutional players are involved, and the relationship among these players were so complex it could set a new definition and benchmark about the state-society role in economic policy-making.

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<sup>18</sup> The account and analysis on this part is based on the comprehensive and insightful study on the political economy of telecommunications liberalisation by Sakkarin Niyomsilpa. See Sakkarin (1995).

It all began during the late period of General Prem Tinsulanond's government in the latter half of the 1980s involving the granting of licence to operate pager service to a private company by the Communications Authority of Thailand (CAT), a telecommunications enterprise under the aegis of the Ministry of Transport and Communications (MOTC).<sup>19</sup> Of course the general policy to privatise telecommunications services, especially those belonging to the Telephone Organisation of Thailand (TOT), was already in place during the early Prem period in the early 1980s, but the vested interests in this organisation was so entrenched that even the strong government of General Prem could not bring about a proper privatisation quickly. The vested interests here consisted of high-ranking bureaucrats of the TOT and the CAT, military leaders who were chairmen or sit in the boards of these telecommunications enterprises, the labour unions of these two enterprises whose combined memberships were among the largest in the country, and the political parties or politicians who set up policies at the top. The magnitude of telecommunications services and the benefits involved were so large that indeed it was not possible for the government to even combine the TOT and CAT into one telecommunications enterprise.<sup>20</sup>

After the first paging service was granted to a private company in 1986 by the CAT, four more paging services were granted in 1989 and 1990, but this time both TOT and CAT were actively involved. Each of these paging services cost about 200-500 million baht, which was quite small compared to the next series of telecommunications services, card phone services, cellular telephone services, optic fibre services, radio

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<sup>19</sup> General Prem was a former Commander-in-Chief of the Thai Army who was drafted to become prime minister in 1980. He was not an elected politician but was supported by a certain majority of political parties. In a way he was not accountable to any political constituencies but on his own reputation and his presumed trust by the King.

<sup>20</sup> The TOT deals with traditional cable-based telephone services whereas the CAT deals with radio-based telephone and communications services. However, those who support the separation of these service providers into two believe that having the two enterprises working practically on the same services could benefit the consumers and the society through keener competition between these two providers.



telephone services, satellite telecommunications, and basic household telephone services. Take the cellular telephone services, for example. The TOT gave the operations to the Shinawatra Group, whereas the CAT gave the operations to the UCOM Group with the cost ranging from 3,000 to 5,000 million baht each.<sup>21</sup> The biggest contract of all, perhaps, was the granting of concession to operate 3 million numbers of ordinary telephone services to two companies, the CP Group (2 million numbers in Bangkok), and the Jasmine Group (1 million numbers in the countryside). The 3-million number project cost over 13 billion baht with the concession period of 25 years.

Now most telecommunications services in Thailand are all divided among these few private companies whose owners or major shareholders have become very rich basically because of the monopolistic practices of charging high fees and high prices for the service. Take the founder of Shinawatra Group, Dr. Thaksin Shinawatra, for example. His combined net worth adds up to more than 57 billion baht, making him one of the richest men in Thailand. His other monopolistic 'competitors' did not do too badly either. A table taken from Sakkarin (1995, p. 163) showed that the assets of the Shinawatra Group increased from 686 million baht in 1989 to 55,976 million baht in 1994. For the other two concessionaires, the UCOM Group and the Samart Group, the assets for the same time periods increased from 719 million baht to 19,326 million baht, and from 313 million baht to 4,319 million baht, respectively. With so much money in the family, getting into politics was easy.

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<sup>21</sup> The founder of the Shinnawatra Group was Dr. Thaksin Shinnawatra who later became a leader of a political party and served many times in various government including the last government of General Chavalit Yongchaiyudh in a position of deputy prime minister. The UCOM Group founder was Mr. Boonchai Benjarongkul who has been a long-time supporter, and sponsor, of the Social Action Party which was a member in the last government of General Chavalit and also in the present government of Mr. Chuan Leekpai. Politicians from the Social Action Party controlled the MOTC during 1988 to 1990 when several telecommunications concessions were given to various private companies. A person from the Benjarongkul family is now a deputy minister in the current government.

Because there is so much money involved, telecommunications industry is where the hottest contest to gain control over policy making takes place. The contest and conflicts which involved several people or groups of people take the following shapes and forms.

#### **(a) The Bureaucrats**

Those high-ranking officers or officials of the TOT and CAT who operate these two organisations on a day-to-day basis would fall under this category of players. They may include the Managing Directors and Deputies Managing Directors of the TOT and Chiefs of various divisions in this organisation. For the CAT, they may include the President and Vice Presidents and again Chiefs of various divisions in this organisation. High-ranking officials in the MOTC, starting from the Permanent Secretary of the Ministry down and including Directors-General of various departments and division directors, can also play important parts in certain policies. For example, the power to allocate radio frequencies (for mobile telephone services) is vested in the Director-General of Post and Telegraph Department, not the CAT President or CAT Board. Although it may appear that these government or public enterprise bureaucrats will have to follow the orders of both the decisions or resolutions of their respective Boards and the decision of the Minister in charge of these public enterprises, they can behave in an uncooperative manner if they dislike or disagree with those decisions or resolutions (such as by concealing crucial information, delaying the implementation, instigating problems, and so on). We have witnessed several cases of these officials being removed from offices by those with higher power for not following given policy directives or disobeying other orders.

Perhaps within each state enterprise, we could count members of the enterprise board also as bureaucrats because, traditionally, the majority of these members, especially the chairman of the board, were drawn from active as well as retired military officers. These board members could ally with the permanent enterprise officials, with the minister in charge of that enterprise, with the business people who

do business with these enterprises, or with the labour unions of these enterprises. Or they can ally with one and not the other, and vice versa. One can see several possibilities that these alliances can be formed among these players, making the outcome of the interplay very complicated indeed.<sup>22</sup>

### **(b) The Political Power**

The minister of transport and communications who is automatically in charge of the TOT and CAT can play a very dominant role in setting telecommunications policies. Of course the job of a minister is to set policies, but the ways in which each minister goes about setting his or her policies can be very different from one to another. Some would come in and work quietly and harmoniously with the permanent staff of ministry of state enterprises, but some would come in aggressively and even change the organisation structure of the enterprise in question completely. One of the most frequent shows-of-power of these aggressive ministers is to reappoint the whole enterprise board, or install a new managing director or president of the enterprise. In this way, the minister could exert his political power fully and gain certain benefits from the implementation of his policies. But this tactic can also backfire as he may counter resistance from other quarters such as from other politicians, political parties, labour groups, or business interests. This does not mean that ministers are always bad or corrupted and the bureaucrats and business people are always good and proper. In fact, the opposite may be true that a good minister is fighting alone in the sea of corrupt officials and greedy business people. The character of each minister, or his political party often determines the character of policy in this complex telecommunications industry.

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<sup>22</sup> There was an actual case where a managing director of the TOT was sacked by a minister of transport and communications for not following his order, but he found sympathy among board members and labour union leaders who tried to challenge the power of the minister in charge. The show-down had to be averted by direct intervention of the prime minister himself.

### **(c) The Business People**

In this telecommunications industry, it may appear that it is a group of private businessmen—entrepreneurs—who make things happened. Who would imagine that within a space of a few years Thailand would have its own communications satellites, extensive cellular telephone services, electronic data communications, submarine fibre optics, widespread internet services, and so on. This is mainly the work of these private entrepreneurs who seized upon opportunities open for them. But while these opportunities are open, not everyone can make use of it, and some could make a better use of the same opportunity than the others. In addition to business acumen, timing and connections are important here. We can quote two successful businessmen in telecommunications industry, Dr. Thaksin Shinawatra and Mr. Boonchai Benjarongkul. Thaksin explained his success in acquiring many government projects: “...Because of my understanding of government rules and regulations which my competitors do not comprehend, I therefore have an edge over them in a bid” (as quoted in Sakkarin, 1995, p. 121). Boonchai was not less sanguine. He said: “...Connections are always important. No matter whether we undertake a joint venture with other private firms or not, our market is still mainly the government. Therefore, our duty is to maintain government connection” (also in Sakkarin, 1995, p. 121). Of course there are no records which show that these connections require monetary rewards, but it is not unreasonable to expect that the coalitions between the policy makers and the private business beneficiaries may produce economic rents of some sorts.<sup>23</sup>

### **(d) The Labour Union**

It has been alluded to earlier that the state enterprise labour unions are the strongest among labour unions in Thailand, and they could pose

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<sup>23</sup> A good case in point is when the TOT refused to upgrade the local telephone services in several areas of Bangkok so that direct international dialling would be possible. Instead, it forced private individual households to apply for a new number (and a new telephone) from a private company which is its concessionaire.

a real obstacle to state enterprise privatisation and liberalisation if they did not like it. We have seen situations when the telecommunications labour unions joined hands with the telecommunications bureaucrats to oppose certain policies that adversely affected their immediate or short-term interests. But the situations have changed of late. First, the state enterprise labour unions were banned by the military coup leaders in 1991. When they were allowed to resume their activities a couple of years later, their potential power to stop work was very much curtailed. More importantly, the earlier experience of privatisation and liberalisation had proven to labour leaders that privatisation in this present world of globalisation yielded greater benefits than costs. It has become quite obvious that their role in economic policy-making has declined.

What lessons can we draw from the above complex interplay among the three or four players in the economic policy-making game? Sakkarin (1995) offered an orderly interpretation of these seemingly confusing situations. He believed that all the intricate interplays in the telecommunications industry in Thailand could be boiled down to a bipolar position, that is to say, either one is pro-reform in the telecommunications industry or is anti-reform. A pro-reform player will support liberalisation in the industry whereas an anti-reform player will oppose any change that reduces his or her present rents or profits. The process of decision-making in this industry, therefore, could be termed 'liberalisation coalition' whereby several elements in this coalition are more equal and strategic partnership combining political parties, business and technocrats is possible. We could end this section by quoting a lengthy statement by Sakkarin at the end of his dissertation about the relative importance of each of the three forces that determined policies in the telecommunications industry as follows:

"Because the bureaucracy is still the most highly organised public institution controlling information and setting up rules and regulations in most areas of society, it has remained influential despite its reduced role in the political system.

Moreover, since political parties are not yet well-established and their structure are still rudimentary, the bureaucracy remains a large political shadow hovering behind the parties whenever their popular support is shaken by political scandals or internal conflicts....But because political power is now shared among many actors with political parties now being the channels through which the interests of business firms, technocrats, some military elements, and others are represented, competition between the bureaucracy and parties is no longer narrowly constrained to a struggle between these two players, but has become more widely extended to other powers and interests as well. As the bureaucracy itself also consists of competing rivalries between the military and the parties are becoming a matter of coalitional conflict between the progressive reformists and the more conservative interests, rather than merely institutional conflicts between two sides”.

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**Table 1:** Salient Economic Statistics of East Asian Economies

	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999e
<b>1. Economic growth (% change of real GDP in domestic currency)</b>													
China	11.6	11.3	4.1	3.8	9.2	14.2	13.5	12.6	10.5	9.6	8.8	7.8	7.5
Korea	11.0	10.5	6.1	9.0	9.2	5.4	5.5	8.3	8.9	6.8	5.0	-5.8	8.5
Singapore	9.7	11.6	9.6	9.0	7.0	6.6	12.8	11.4	8.1	7.6	8.9	0.3	5.5
Taiwan	12.7	7.8	8.2	5.4	7.6	6.8	6.3	6.5	6.0	5.7	6.8	4.7	5.5
Indonesia	5.3	6.4	9.1	9.0	8.9	7.2	7.3	7.5	8.2	7.8	4.7	-13.2	0.0
Malaysia	5.4	9.9	9.0	9.0	9.6	8.9	9.9	9.2	9.8	10.00	7.5	-7.5	4.5
Philippines	4.3	6.8	6.2	3.0	-0.6	0.3	2.1	4.4	4.7	5.9	5.2	-0.5	3.0
Thailand	9.5	13.3	12.2	11.2	8.6	8.1	8.4	9.0	8.9	5.9	-1.8	-10.36	4.0
<b>2. Inflation (% change in GDP deflator or consumer prices)</b>													
China	5.1	12.1	8.8	5.7	6.7	7.9	14.6	19.9	13.2	5.9	0.8	-1.1	-1.5
Korea	5.5	7.5	5.6	10.0	10.9	7.6	7.1	7.7	7.1	3.9	3.2	5.3	1.0
Singapore	0.7	5.7	4.7	4.8	3.9	1.5	3.3	2.8	2.9	1.1	1.4	-1.0	0.4
Taiwan	0.6	0.9	3.3	3.8	3.9	3.9	3.5	1.9	1.9	2.7	1.9	2.5	0.5
Indonesia	15.4	13.0	10.0	7.7	8.8	5.4	8.9	7.8	9.9	8.7	12.6	73.0	18.0
Malaysia	5.5	3.6	4.5	3.8	3.6	2.4	4.0	3.9	3.6	3.7	3.3	9.1	3.5
Philippines	7.5	9.7	9.0	13.0	16.5	7.9	6.8	10.0	7.6	7.7	6.0	10.8	8.0
Thailand	4.7	5.9	6.1	5.8	5.8	4.5	3.3	5.2	5.8	3.9	4.3	9.6	-1.0

**Table 1:** Salient Economic Statistics of East Asian Economies (cont.)

	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999e
<b>3. Annual average exchange rates (% change of domestic currency units per US\$)</b>													
China	-7.2	0.0	-1.1	-21.3	-10.1	-3.5	-4.3	-33.2	3.2	0.5	0.3	0.1	0.0
Korea	7.16	12.5	8.9	-5.1	-3.5	-6.1	-2.7	-0.1	4.2	-4.1	-15.4	-32.1	17.9
Singapore	3.4	4.7	3.2	7.6	4.9	6.1	0.8	5.8	7.8	0.5	-5.0	-11.3	-1.3
Taiwan	19.2	11.0	8.3	-1.8	0.3	6.6	-4.7	-0.3	-0.1	-3.5	-4.3	-14.2	3.7
Indonesia	-22.0	-2.5	-4.8	-4.0	-5.5	-3.9	-2.7	-3.4	-3.9	-4.0	-19.5	-71.0	27.6
Malaysia	2.5	-3.8	-3.3	0.1	-1.6	8.0	-1.0	-1.9	4.8	-0.5	-10.6	-28.3	3.3
Philippines	-0.9	-2.5	-3.0	-10.6	-11.5	7.7	-5.9	2.7	2.7	-1.9	-11.0	-27.9	4.6
Thailand	2.2	1.7	-1.6	0.5	0.3	0.5	0.3	0.7	0.9	-1.7	-19.2	-24.2	9.3
<b>4. Per capita GDP in current US\$</b>													
China	296	364	401	342	353	415	510	455	581	671	730	772	809
Korea	3,279	4,336	5,242	5,893	6,823	7,208	7,847	9,055	10,874	11,422	10,360	6,908	8,846
Singapore	7,990	9,698	11,270	13,556	15,494	17,417	20,050	23,835	28,019	30,057	30,913	26,694	27,341
Taiwan	5,184	6,191	7,417	7,870	8,725	10,221	10,630	11,408	12,214	12,683	13,065	11,918	12,986
Indonesia	446	514	577	639	703	750	838	923	1,038	1,146	1,072	461	683
Malaysia	1,943	2,067	2,210	2,432	2,649	3,107	3,420	3,704	4,294	4,764	4,624	3,268	3,567
Philippines	575	638	698	708	709	808	810	933	1,055	1,152	1,118	867	987
Thailand	957	1,149	1,323	1,535	1,739	1,944	2,156	2,461	2,828	3,031	2,485	1,834	2,044

**Table 1:** Salient Economic Statistics of East Asian Economies (cont.)

	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999e
<b>5. Exports:GDP (%)</b>													
China	12.19	11.45	10.65	14.80	16.23	16.32	14.45	21.97	21.03	21.03	23.07	21.65	-
Korea	40.18	38.41	32.73	29.09	27.35	27.65	27.54	27.82	30.20	29.50	34.73	48.74	42.62
Singapore	170.99	191.53	185.53	184.05	175.58	168.61	167.40	173.20	177.20	170.45	162.85	152.41	-
Taiwan	57.32	54.34	49.59	46.76	47.40	43.38	44.24	44.11	48.78	48.55	49.24	49.07	45.51
Indonesia	23.93	23.78	24.29	25.27	25.55	27.88	26.75	26.51	26.31	25.82	27.86	53.69	35.27
Malaysia	63.76	67.32	73.10	74.47	77.83	75.98	78.92	89.15	95.42	91.58	93.20	114.36	120.52
Philippines	26.64	28.39	28.12	27.51	29.60	29.13	31.36	33.82	36.36	40.51	49.06	55.42	51.61
Thailand	28.89	33.01	34.92	34.13	35.96	36.97	37.82	38.76	41.79	39.22	47.96	58.54	56.67
<b>6. Imports:GDP (%)</b>													
China	12.10	12.46	11.75	12.04	13.37	15.28	16.36	20.56	19.32	18.88	18.56	17.30	-
Korea	32.42	30.47	30.02	30.26	30.36	29.14	27.49	28.96	31.68	33.61	35.75	35.82	35.16
Singapore	170.79	184.41	177.71	177.13	164.86	158.75	159.50	158.16	161.62	156.81	150.12	134.64	-
Taiwan	39.97	43.61	42.09	41.78	42.87	41.29	42.35	42.21	46.81	44.71	46.49	47.06	43.73
Indonesia	22.40	21.09	21.41	23.73	24.10	24.96	23.77	25.37	27.65	26.44	28.13	43.81	27.51
Malaysia	49.64	56.95	66.87	72.42	81.49	74.63	79.02	90.75	98.02	90.19	92.27	92.56	93.25
Philippines	26.22	26.94	30.27	33.28	32.59	34.03	39.80	40.13	44.18	49.29	59.43	59.15	53.44
Thailand	28.33	34.40	37.49	41.65	42.51	40.98	41.56	43.60	48.52	45.50	46.57	42.60	44.21

**Table 1:** Salient Economic Statistics of East Asian Economies (cont.)

	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999e
<b>7. Current account balance:GDP (%)</b>													
China	0.09	-0.95	-0.96	3.09	3.27	1.33	-1.93	1.27	0.23	0.89	3.31	3.06	1.20
Korea	7.38	7.97	2.41	-0.79	-2.82	-1.25	0.29	-0.96	-1.74	-4.42	-1.71	12.64	5.84
Singapore	-0.53	7.69	9.93	8.51	11.40	12.05	7.31	16.32	17.25	15.86	15.67	20.86	20.80
Taiwan	17.65	8.27	7.65	6.82	6.95	4.03	3.16	2.70	2.10	4.04	2.54	1.35	2.08
Indonesia	-2.77	-1.57	-1.09	-2.61	-3.32	-2.00	-1.33	-1.58	-3.18	-3.37	-2.27	4.22	3.52
Malaysia	8.00	5.29	0.81	-1.98	-8.51	-3.66	-4.47	-6.07	-9.53	-4.56	-4.78	12.95	12.00
Philippines	-1.34	-1.03	-3.42	-6.08	-2.28	-1.89	-5.55	-4.60	-2.67	-4.77	-5.30	1.97	9.26
Thailand	-0.73	-2.68	-3.46	-8.53	-7.71	-5.66	-5.08	-5.59	-8.07	-8.08	-2.01	12.68	8.03
<b>8. External debts:GDP (%)</b>													
China	11.00	10.59	10.00	14.26	14.84	14.99	14.30	18.52	16.86	15.78	16.33	-	-
Korea	34.81	24.11	18.89	18.59	18.17	18.26	18.17	23.36	23.51	25.32	30.09	41.75	30.61
Singapore	19.09	15.25	14.07	10.38	10.31	9.48	9.71	10.95	10.06	10.77	13.04	-	-
Taiwan	19.09	14.39	11.45	11.04	10.74	9.37	10.44	10.87	10.40	10.07	11.84	-	-
Indonesia	69.31	60.91	58.55	61.06	62.07	63.26	56.44	60.95	61.54	56.71	63.12	154.37	-
Malaysia	70.97	52.64	41.90	34.82	34.76	33.84	39.09	40.73	38.66	39.34	47.13	63.27	57.94
Philippines	89.72	76.37	67.30	69.01	71.45	62.30	66.10	61.50	51.04	48.46	55.30	73.31	63.62
Thailand	39.61	34.16	31.63	34.34	38.56	39.14	41.62	44.89	49.15	49.79	62.02	76.76	62.33

**Table 1:** Salient Economic Statistics of East Asian Economies (cont.)

	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999e
<b>9. International reserves (US\$ million)</b>													
China	16,305	18,541	17,960	29,586	43,674	20,620	22,387	52,914	75,377	107,039	142,762	149,188	153,996
Korea	3,584	12,347	15,214	14,793	13,701	17,121	20,228	25,639	32,678	34,037	20,368	51,975	66,147
Singapore	15,227	17,073	20,345	27,748	34,133	39,885	48,361	58,177	68,695	76,847	71,289	74,928	75,941
Taiwan	76,748	73,897	73,224	72,441	82,405	82,306	83,573	92,454	90,310	88,038	83,502	90,341	101,652
Indonesia	5,592	5,048	5,454	7,459	9,258	10,449	11,263	12,133	13,708	18,251	16,587	22,713	26,181
Malaysia	7,435	6,527	7,783	9,754	10,886	17,228	27,249	25,423	23,774	27,009	20,788	25,559	29,962
Philippines	968	1,003	1,417	924	3,246	4,403	4,676	6,017	6,372	10,030	7,266	9,226	12,741
Thailand	2,940	3,098	3,854	4,117	4,611	4,899	5,179	5,184	4,899	4,985	3,944	6,241	6,504
<b>10. Current revenue:GDP (%)</b>													
China	18.39	15.79	15.76	15.84	14.57	13.08	12.56	11.16	10.67	10.91	11.62	12.44	-
Korea	16.51	16.94	17.10	17.52	16.60	17.45	17.96	18.47	18.73	19.81	20.02	21.05	-
Singapore	28.10	27.84	27.35	28.62	29.75	31.71	31.67	31.02	33.75	36.91	40.05	42.26	41.19
Taiwan	11.97	12.50	14.45	16.28	12.84	13.94	13.62	13.80	13.53	12.63	12.37	13.30	-
Indonesia	16.71	15.37	16.00	18.75	16.64	17.30	17.02	17.38	17.69	17.41	18.46	-	-
Malaysia	22.38	23.78	24.02	24.79	25.20	26.05	24.21	25.30	22.90	22.97	23.32	19.94	18.60
Philippines	14.73	13.19	15.87	16.19	17.12	17.69	17.44	18.05	18.77	18.80	19.25	17.26	16.01
Thailand	15.54	16.55	17.62	18.85	18.46	18.06	18.14	18.72	18.57	18.51	17.94	15.46	14.69

**Table 1:** Salient Economic Statistics of East Asian Economies (cont.)

	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999e
<b>11. Current expenditure:GDP (%)</b>													
China	18.91	16.69	16.70	16.63	15.67	14.05	13.40	12.39	11.67	11.69	12.40	13.60	-
Korea	12.78	12.58	13.42	13.79	13.84	14.42	14.08	13.87	13.00	13.25	13.66	15.47	-
Singapore (exp. + loan)	32.85	21.65	26.17	18.85	19.49	19.78	17.71	18.76	20.37	22.28	30.49	25.87	23.34
Taiwan	9.58	9.95	10.38	10.28	10.88	12.99	12.18	11.09	10.90	11.15	11.04	10.57	-
Indonesia	11.26	10.05	10.22	10.98	9.17	9.14	9.14	8.90	7.93	9.24	10.88	-	-
Malaysia	24.89	22.96	21.84	21.02	20.94	21.29	18.71	17.94	16.44	17.29	15.85	15.67	15.27
Philippines	13.99	14.04	15.43	16.52	15.75	15.90	15.37	15.26	15.17	16.26	17.32	17.57	-
Thailand	13.90	12.41	12.18	11.41	11.32	11.55	11.27	10.54	10.39	10.83	10.85	12.39	12.78
<b>12. Overall fiscal balance:GDP (%)</b>													
China	-0.53	-0.90	-0.94	-0.79	-1.10	-0.97	-0.85	-1.23	-0.99	-0.78	-0.78	-1.16	-
Korea	0.43	1.07	0.19	-0.68	-1.61	-0.48	0.61	0.64	0.56	0.42	-1.27	-3.77	-
Singapore	-4.75	6.19	1.18	9.77	10.27	11.93	13.96	12.27	13.38	14.62	9.56	16.39	17.85
Taiwan	0.02	0.08	1.34	1.89	-2.24	-5.44	-3.95	-1.75	-1.11	-1.35	-1.69	0.15	-
Indonesia	-3.48	-2.29	-1.37	-0.85	-0.71	-1.13	-0.52	1.00	2.22	1.44	1.39	-	-
Malaysia	-7.59	-3.56	-3.24	-2.89	-1.95	-0.82	0.21	2.26	0.84	0.72	2.35	-1.76	-7.29
Philippines	-2.65	-3.08	-2.26	-3.66	-2.35	-1.31	-1.59	0.92	0.53	0.26	-0.01	-1.89	-4.67
Thailand	-0.43	2.34	3.27	4.83	4.30	2.57	1.88	2.68	3.02	0.94	-0.32	-2.78	-3.23

**Table 1:** Salient Economic Statistics of East Asian Economies (cont.)

	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999e
<b>13. M1:GDP (%)</b>													
China	38.24	36.76	34.50	37.79	41.58	43.98	48.39	46.07	43.77	45.17	51.49	54.43	52.01
Korea	9.01	9.13	9.61	8.90	10.05	10.01	10.47	10.05	10.30	9.45	7.73	7.92	6.91
Singapore	25.67	23.58	23.62	22.96	22.22	23.16	24.58	21.95	21.37	20.96	19.31	19.27	19.07
Taiwan	48.29	55.21	52.37	44.71	44.87	45.45	47.61	49.23	45.89	45.82	45.69	44.20	44.96
Indonesia	10.20	9.62	11.45	11.30	10.68	9.73	10.23	10.85	10.37	9.70	10.96	9.26	9.37
Malaysia	19.45	19.31	20.19	20.36	19.91	20.17	24.27	23.78	23.34	23.88	22.48	19.03	19.95
Philippines	7.88	7.66	8.78	8.63	8.63	8.70	9.75	9.45	10.21	10.73	11.00	10.72	10.13
Thailand	10.18	9.52	9.41	8.95	8.87	8.82	9.34	9.53	9.28	9.19	9.10	9.72	10.44
<b>14. M2:GDP (%)</b>													
China	66.52	64.32	67.38	79.16	86.04	91.33	100.30	100.34	103.87	112.10	123.37	132.95	134.19
Korea	35.92	36.76	39.31	38.43	38.68	39.18	40.44	41.18	40.80	42.61	44.90	57.52	60.01
Singapore	86.31	82.99	88.58	93.05	94.04	94.71	88.21	88.10	85.98	86.77	86.66	113.77	113.88
Taiwan	121.26	134.04	141.91	143.99	153.88	165.12	173.12	183.53	185.80	186.88	185.64	187.91	186.20
Indonesia	27.23	28.11	32.59	40.13	39.77	42.16	43.41	44.93	48.05	52.15	55.42	60.31	57.82
Malaysia	73.71	69.36	70.69	70.46	71.11	75.98	81.19	82.04	89.39	93.88	103.66	104.22	102.17
Philippines	27.03	28.79	32.35	34.05	34.48	36.18	42.14	45.66	50.36	54.46	61.61	60.69	56.93
Thailand	62.20	61.30	65.00	70.03	73.10	74.81	79.08	77.85	79.09	80.86	91.88	102.59	101.58



**Table 1:** Salient Economic Statistics of East Asian Economies (cont.)

	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999e
<b>15. Lending rate (%)</b>													
China	7.92	9.00	11.34	9.36	8.64	8.64	10.98	10.98	12.06	10.08	8.64	6.39	5.85
Korea	10.00	10.13	11.25	10.00	10.00	10.00	8.58	8.50	9.00	8.84	11.88	15.28	8.86
Singapore	6.10	5.96	6.21	7.36	7.58	5.95	5.39	5.88	6.37	6.26	6.32	7.44	5.80
Taiwan	9.00	9.00	10.38	10.00	8.62	8.30	8.00	8.00	7.80	7.53	7.65	7.87	7.84
Indonesia	21.67	22.10	21.70	20.83	25.53	24.03	20.59	17.76	18.85	19.22	21.82	32.15	23.07
Malaysia	8.19	7.25	7.00	7.17	8.13	9.31	9.05	7.61	7.63	8.89	9.53	10.61	6.79
Philippines	13.34	15.92	19.27	24.12	23.07	19.48	14.68	15.06	14.68	14.84	16.28	16.78	10.12
Thailand	10.71	11.58	12.25	14.42	15.40	12.17	11.17	10.90	13.25	13.40	13.65	14.42	8.50

Source: Adapted from "Recent Trends and Prospects for Major Asian Economies", *East Asian Economic Perspectives*, vol. 11, Special Issue, February 2000.



## **12. GLOBALISATION AND DOMESTIC POLICY RESPONSES IN EAST ASIA\***

**By Medhi Krongkaew\*\***

### **1. Introduction**

A funny thing happened to globalisation on the way to the beginning of the 21<sup>st</sup> century. The advancement of computer and information technology since the late 1970s in such industrialised countries as the US had given rise to a dramatic increase in work efficiency and an equally dramatic drop in the costs of telecommunications. The rapid increase in computing power and low-costs of personal computers and other electronic equipment in the ensuing decades have transformed the world into a ‘global village’ where people can communicate with one another quickly, conveniently, and less expensively as if they were in a small village. As will be alluded to later, the world has been so overwhelmed by the apparent positive effects of this ‘globalisation’ that no one would dare to question the merits of this world phenomenon, or to doubt its beneficent power. Somehow the currency cum financial cum economic crisis in East Asia in the latter half of the 1990s had changed all this. To some, this crisis could be looked upon as the crisis of globalisation, or the crisis brought on by globalisation. Many more negative images of globalisation had also emerged in the last few years of the 20<sup>th</sup> century, so much so that it is now fashionable to stage protest against globalisation (or any activities that can be construed as caused by or leading to globalisation), just as it was equally fashionable to extol the virtue of globalisation a few years earlier.

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\* The earlier version of this paper was presented at the International Federation of Social Science Organisations (IFSSO) Workshop 2000, organised by the Secretariat Office of the IFSSO, at Naresuan University, Phitsanuloke 65000, Thailand on 14-15 November 2000.

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The truth about the merits or demerits of globalisation probably lies between these two extremes. Globalisation is certainly not all good or not all bad. Globalisation may bring in greater efficiency in resource allocation but it could also change the distributive patterns of the society so that the welfare losses among certain groups of the people may exceed the welfare gains among another groups of the people, or the world as a whole may suffer the adverse consequences of globalisation such as environmental damage or degradation. These pros and cons of globalisation may be perceived or looked upon differently by different people in different countries or societies. It is interesting to know how these people in these countries accept or reject or otherwise adjust to the advent of globalisation in the last three decades.

The main focus of this paper, therefore, will be on domestic policy responses of some of the countries in East Asia. East Asia as a region is selected because it exhibits several characteristics that can be used to reflect the outcome of globalisation, be it the open-market or market-friendly economic system, the reliance on price mechanism to allocate resources, the dependence on international or multilateral trade and investment relations to guide national policies, and so on. Indeed, the rapid economic growth of several countries in East Asia was so outstanding that it is sometimes referred to as an 'East Asian Miracle'. However, not all aspects of policy responses from domestic policy makers could be covered in this short paper. Only a broad consideration of how each country, through its policy makers, responds to the force of globalisation.

After this Introductory section, the paper is divided into 3 further sections. Section 1 deals with the typology or different types of globalisation, the knowledge of which is necessary if we are to understand the impact of globalisation better. Section 2 discusses various policy responses to globalisation in 9 selected countries, namely, China, Indonesia, Japan, Korea, Malaysia, Philippines, Singapore, Taiwan, and Thailand. Section 3 concludes and draws some lessons learned from the experiences of these East Asian countries as to how to cope with globalisation in the future.

## 2. Typology of Globalisation

Two recent statements from two world leaders regarding globalisation could set the tone for the further debate on the nature and characteristics of globalisation. In its 1998 Annual Report of the Secretary-General of the United Nations, Mr. Kofi Annan, the UN Secretary-General, has this to say about globalisation:

“Globalisation has an immense potential to improve people’s lives, but it can disrupt—and destroy—they as well. Those who do not accept it pervasive, all-encompassing ways are often left behind. It is our task to prevent this; to ensure that globalisation leads to progress, prosperity and security for all.”

The other statement is from Mr. James Wolfensohn, President of the World Bank in his introduction to the 1999/2000 World Development Report in August 1999. This is what he said:

“This report (World Development Report 1999/2000) seeks neither to praise nor to condemn globalisation and localisation. Rather it recognises them as forces that bring new opportunities but also raise new or greater challenges in terms of economic and political instability.”

It is obvious from the above two statements that these two important world leaders have recognised the inevitability of globalisation, and perceived both the opportunities and threats, the benefits and costs, the positive and negative sides, of globalisation. But while the statements such as above are commonly heard nowadays, the true meaning of globalisation can be a subject of heated debate among scholars and researchers alike. What is actually globalisation? What has caused it? Is it really inevitable as these two world leaders believe? What can it do to those countries which accept or adopt it? Or what will happen if they

do not? Specifically, for our purpose in this paper, what are the social consequences of globalisation?

In one of the most comprehensive studies on the nature and development of globalisation ever taken by social scientists, David Held and his associates (Held *et al.* 1999. P. 16) had looked at various meanings, connotations and implications of globalisation, and come to a conclusion that globalisation can be thought as:

“...a process (or set of processes) which embodies a transformation in the spatial organisation of social relations and transactions—assessed in terms of their extensity, intensity, velocity and impact—generating transcontinental or interregional flows and networks of activity, interaction, and the exercise of power.”

This is a neat definition, but it couches in several underlying concepts that require further explanation. For example, what is meant by ‘extensity’ of globalisation is that globalisation implies a ‘stretching’ of social, political and economic activities across frontiers such that events, decisions and activities in one region of the world can come to have significance for individuals and communities in other regions of the world far away. Beyond this, globalisation implies that connections across frontiers are not merely random or temporary but quite regular such that one can observe the ‘intensity’ (or intensification) or growing magnitude of such interconnectedness, or patterns of interaction and flows across boundaries. Held *et al.* further explained that growing extensity and intensity of global interconnectedness may also imply a speeding up, or velocity, of global interactions and processes as the global diffusion of ideas, goods, information, capital, and people increases. As a result of the above growing extensity, intensity and velocity of global interactions, the ‘impact’ of the distant events is magnified so that even the most local developments may come to have enormous global consequences. With these four underlying concepts or conditions, globalisation has become

a very important human phenomenon indeed, and it has gone to explain why no one can afford to ignore it.

Is there any need to spend any more time discussing how other scholars define globalisation? Probably not, as the basic grasp of the meaning of globalisation by the general public can be safely assumed. Samuel S. Kim (1999) of Columbia University (whose table of globalisation indicators in East Asia we are using in this paper), for example, practically echoed Held *et al.*'s definition in his own definition of globalisation, with a twist that Kim has defined human relations and interactions to include economic, social, cultural, environmental, political, diplomatic, and security matters, and that globalisation is not just a process but also a new international 'system'. And as a system, it can bestow rewards to those who know how to behave in the new system, but it can also punish those who do not how or fail to adjust to the new system. What is more important is, perhaps, to classify globalisation to suit our purpose (on what we want to do with it). In this case it is appropriate to classify globalisation on the causes and consequences of it.

Earlier proponents of globalisation (such as Ohmae, 1990 and 1995) often warmed over technology or technological change as the main cause of globalisation. It is true that the technology of miniaturisation and the reduced costs that go with this new technology have brought about smaller, faster, more efficient machinery, tools, equipment, and appliances that save human time and energy and facilitate human interactions across geographical boundaries. And as globalisation has a technological base, it is therefore here to stay (Williamson, 1998). To this enthusiastic group of globalisation supporters, Held and his associates would call them 'the hyper-globalists'. An important implication of globalised world based on technology is that the state will lose its controlling power over its citizens. As Ohmae (1990) tried to point out, the globalised world will cause the authority to switch from states to multinational corporations and other transnational associations, and with the core of the state's authority weakened by globalisation, the state becomes a hollow or defective institution.

But while technological change is important for the spread of globalisation, many would argue against the use of technology or technological change as the main cause of globalisation. Heinz Arndt of the Australian National University, for example, dismissed the notion of technological change as the main attribute of globalisation as unconvincing (Arndt, 1998, p. 74). Instead he believes that the crucial factor has been liberalisation of international trade and payments by all developed and many developing countries in recent decades. This view and its variants that rely on economic foundation of globalisation has many followers (UNCTAD, 1998; Rodrik, 1997 and 1998; Lawrence, 1996; IMF, 1997; Mirza, 1998; Dominique, 1999). But perhaps the combination of the two can make this type of globalisation even stronger. Globalisation is now referred as the growing economic interdependence of countries world-wide through the increase volume and variety of cross-border transactions in goods and services and of international capital flows, and also through the rapid and widespread diffusion of technology (Mirza, 1998, p. 3).

But while this trade plus technology school of globalisation has hold sway the majority of people in many countries, it is not without its detractors. Indeed, it is not the causes but the consequences or effects of globalisation that bring these detractors of globalisation into the open. Against the main argument that globalisation through liberalisation of trade, investment and payments brings in greater economic growth and prosperity to all concerned, these detractors counter-argue that it also brings in marginalisation of some group of people, greater income and wealth inequality (the race to the bottom), environmental degradation, erosion of close family ties, increased spiritual isolation, crime and violence. Held and associates would call this group of thinkers and believers 'the sceptics', and many well-known names could be included here (such as Stevenson, 1999; Gray, 1999; Greider, 1997; Hirst and Thompson, 1996). And perhaps all those protesters who staged a successful protest against the meeting of the WTO in Seattle in November 1999 could also be included in this group. In his influential



book, John Gray (1999) of the London School of Economics, for example, insists that the unfettered global free market economy will not spawn a self-regulating utopia, but an increasing social instability and economic anarchy. To Gray, free market is a rare and short-lived phenomenon, a specific product of English nineteenth-century social engineering, from whose cycles of boom and bust we still have much to learn. His book also attacks the US-led investment in the free market, calling it 'anachro-capitalism' of post-communist Russia which is most likely to bring the world to deepening international anarchy.

Certainly Gray's opinion and analysis is quite extreme, and while he fits the role of a powerful sceptic to globalisation, many would prefer to steer a middle ground. The negative consequences of globalisation are of course recognised but the state or government could do something to prevent or ameliorate those. So, far from being devolved into a weakened and defective institution, the state in the new globalised world could be adjusted to the changing world situations where the states or national governments adapt to the expanding jurisdiction of international governance while maintaining the ultimate supremacy of internal legal control and empowerment. The case of EU and WTO, and to a lesser extent, APEC, would fall under this adjusted role of the state. Held and associates would call this group of believers in globalisation 'the transformationists'. Instead of globalisation bringing about the 'end of the state', it has encouraged a series of adjustment strategies, and, to a certain extent, a more activist state (Held *et al.*, 1999, p. 13-14). In its latest 1999 Human Development Report, the UNDP had devoted the whole volume to discussing 'Globalisation with Human Face' (UNDP, 1999). The authors of this volume are certainly not sceptics of globalisation as they freely admitted that globalisation offered great opportunities for human advances, but as globalisation often bring about greater inequity and social exclusion, stronger governance is needed both nationally and globally. This of course can also be classified as a transformationalist position.

The above typology of globalisation should lend itself to a better understanding of the role and impacts of globalisation on any society. On this note of the impacts of globalisation, Held *et al.* have further expanded their analysis to cover the four analytically distinct types of impacts. First, the decisional impacts refer to the relative benefits and costs arisen out of certain globalisation-caused decisions by decision makers. Second, the institutional impacts highlight the ways in which globalisation has caused institutions to change. Third, the distributional impacts refer to the ways in which globalisation has caused the change in relative welfare of the people in the society. Finally, the structural impacts concern the ways in which states and societies accommodate themselves to global forces.

### **3. Domestic Responses to Globalisation in East Asia<sup>1</sup>**

The last section dwelled on the general concept of globalisation at least to show that the increase in international transactions (trade, tourism, communications, and the like) can be looked upon as a manifestation of the acceptance of globalisation in many countries. Despite great diversity among countries in the East Asian region, the majority of these countries follow the same pattern of economic development based on outward-oriented or export promotion. The well-known pattern of development is that of a group of flying geese, with Japan as the leader, followed by Korea, Taiwan and Singapore in the second rank, the ASEAN-4 namely Indonesia, Malaysia, Philippines and Thailand in the third, China, Vietnam and other Southeast Asian countries in fourth and so on. The more open or outward-oriented these countries have become, the more likely that they will stay in front, closely catching up the leader, Japan. One indicator of internationalisation of any economy is the share of its export to GDP, and this indicator has been quite high

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<sup>1</sup> The information on how selected countries in East Asia are responding to globalisation in this section is obtained from the special volume of Asian Perspective which deals with globalisation in East Asia, with Samuel S. Kim as its guest editor.

for most of these East Asian economies. In fact the share of exports to GDP of Japan may be the lowest among these East Asian countries. But Japan is a very large economy; even 10 per cent of the GDP devoted to exports can be very large in absolute term. Moreover, other openness indicators such as the amount of foreign direct investment coming into a country can be a good indication of the economic openness of that country. In this case, China is a current champion in this category of investment globalisation.<sup>2</sup>

Japan as the first country in East Asia to catch up with the West in term of modern economic growth succeeded because it could change the nature of its exports from a few primary-based products to many manufacturing-based products rivalling and eventually surpassing similar products from the West. Japan was an earlier beneficiary of limited globalisation in the past. The success of Japan as a new manufacturing nation was so rapid and extensive that by early 1980s Japan has become the second largest economy in the world after the US. The economic prosperity in the 1980s naturally led Japan to think much about the 'internationalisation' of Japan, that is to say become world leader in economic and financial affairs.<sup>3</sup> Unfortunately, the economic bubble which was built up as a result of enormous success in manufacturing production and trade in the 1970s and 1980s had finally burst in the late 1980s, causing massive problems in the financial sector through bank failures and unrecovered bad loans. This was the time when the world had come to know the globalisation process, when the soviet system had failed and global capitalism had won. Japan was forced to recognise and accept the so-called 'global standards', especially standards that were forced upon its financial systems. There was of course resistance to this form of financial globalisation, but, grudgingly, Japan has no choice

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<sup>2</sup> For comparison of many of these globalisation indicators see a special table in Kim (1999).

<sup>3</sup> The word for internationalisation in Japanese is 'kokaika'. The word has an air of excitement in it. But for 'globalisation', the Japanese use 'gurobaruka' which is just a Japanese pronunciation of the word 'global'. The excitement is gone.

but to accept these Westernised (or even Americanised) practices in its long-established 'Japanese system'. But as Sakakibara Eisuke, a well-known former Vice-Minister of Finance has said, in order to participate in the world economy, Japan must adopt existing global standards, even while fighting to adapt the global system to allow for local heterogeneity of systems. (as quoted in Grimes, 1999, p. 184). William W. Grimes is probably correct when he says that, as a result of the financial troubles in Japan and the advent of globalisation everywhere, Japanese firms today are fundamentally incapable of controlling the pace of their own entry into globalisation, leading to the *fin de siècle* anxiety that is so evident in the domestic discourse. To Grimes, this is perhaps the first time since the end of the US Occupation that Japan's corporate leaders and policy makers have been unable to control or take advantage of rapid change in the global economy. Thus, despite the fondest hopes of Japan's internationalists, globalisation now represents constraint rather than opportunity. (Grimes, 1999, p. 192).

The situation is different for Korea who is earnestly trying to catch up with Japan. Ever since the time of Kim Young Sam, the immediate past President, globalisation had received enthusiastic welcome from the Korean leader. His globalisation policy (or *seggyehwa*) would accept international norms and international rules established multilaterally, and Korea must be prepared to compete in the international markets. As pointed out by Gills and Gills (1999, p. 201), President Kim Young Sam's vision of globalisation embraced a wide range of reforms, including transparency of transactions, fair competition, financial deregulation, tax reform, industrial relations reform, expansion of social security, and political and administrative reform. In so doing, domestic conglomerates or Chaebols must be broken from their oligopolistic positions, their previous business/government relationship severed, and their stranglehold on the economy broken.

Kim Young Sam the former President could not do this during his presidency, but Kim Dae Jung, the new President, can. The new presidential election which came at the onset of the Korean financial

and economic crisis gave an added popular support to President Kim Dae Jung, who quickly tackled the Chaebol matters with firm hands and determination. As early as 7 December 1998, Kim Dae Jung was able to convene the top 5 Chaebol presidents and forced an agreement on a sweeping corporate restructure program. The 'five great reforms' at the centre of this plan include: (1) greater transparency in corporate management; (2) ending mutual debt guarantees among Chaebol subsidiaries; (3) establishing a healthy financial structure; (4) emphasis on core business lines among Chaebol and encouragement of SMEs; and (5) increasing managerial and majority shareholder accountability (see Gills and Gills, 1999, p. 210).

While the severity of the Korean economic crisis could be attributable to the massive outflows of capital which is a characteristic of globalisation, the speed with which Korea has emerged from this economic crisis can be attributable to the massive increase in its exports, another characteristic of globalisation. So, globalisation in itself cannot be blamed for causing economic troubles only; it can bring about quick economic recovery too. In fact, judicious preparation and adjustments to the forces of globalisation could prevent crisis from happening, or reduce severity of its shocks. The cases of Taiwan and Singapore attest to this. The success of Taiwan's exports in the 1970s and 1980s, had earned Taiwan enormous amount of foreign reserves. In the early 1990s, for example, the foreign reserves of Taiwan of about US\$89 billion were reputed to be largest in the world (White III, 1999). Therefore, Taiwan is likely to be immune from negative effects of capital movements. Taiwan began to reform its banking laws in 1989, resulting in greater transparency and accountability in the banking operations, with greater supervision from the authority. Therefore, the crisis hit East Asia in late 1997, Taiwan was already prepared for the economic shock like this. The exchange rate of the NT dollar fell for about 13 per cent, and the rate of growth declined from 6.8 per cent in 1997 to about 5.1 per cent in 1998. This could be regarded as a very small impact indeed considered what had happened in Korea, Thailand and Indonesia.

The situation in Singapore is similar. After the recession in mid-1980s, Singapore became more careful about economic over-expansion. In more than 3 decades after separation from the Malaysian Federation, Singapore had depended on open market to turn itself from a poor fishing village to a very prosperous island nation by allowing foreign investment and management to operate in the island state, with the state providing physical, economic and social infrastructure, and strong government leadership. In short, Singapore moves with the force of the market, and has benefited from it since. The East Asian Crisis affected the Singapore economy too--it has to be, considering the fact it is surrounded by the three big countries suffering from crisis of varying degrees: Indonesia, Malaysia and Thailand, but the overall growth rate of GDP was still positive (about 1.2 per cent) in 1998.

Philippines may also escape serious economic crisis, but for different reasons. In the mid-1980s, Philippines had already suffered from external debt problems, and had received assistance from the IMF. The conditionalities, painful as they were, had forced Philippines to institute several financial and economic reforms, which had helped it to weather the storm of the East Asian crisis. Philippines had a good sense to float its currency soon after the crisis in Thailand, thus avoiding the expensive defence of its currency. As for China, it had not only escaped the negative impact of the East Asian crisis, it continued to grow strongly in 1998 and 1999. China in the era of Deng Xiaoping was already prepared for the inevitability of globalisation. While, politically, China is still a socialist country, it has adopted the main features of market capitalism by dismantling central planning, allowing private ownership and enterprises, opening its economy for foreign direct investment, and starting to reform its inefficient state-owned enterprises. But while the current account transactions in China are basically open, the capital account transactions are still closed. The Chinese economy, therefore, was not subject to volatile capital movements that ailed many of its neighbours. The post-Deng Chinese leaders (Jiang Zemin and Zhu Rongji) have gone one step further than Deng. Not only that they accept the force of free

market in the globalised world, they want China to be the leader in Asia and the world, and have recognised that the way to achieve that is to increase the efficiency of its economic management and the capability of its people, and to harness technology for the future. China may still be a poor country today, but the potential for it to be an economic superpower is high as long as China remains receptive to the force of globalisation.

That left the other three countries that suffered the most from the effects of the economic crisis. Thailand, where the crisis started, has been known to be very open, very outward-oriented since the early 1960s when it launched its first National Economic Development Plan. This 'openness' has served Thailand well, making the Thai economy grow very fast without any single year of negative growth rate in the last three and a half decades, that is until 1997. The Thais had apparently become 'too open' in the early 1990s, when the authority liberalised, not just the current account transactions, but also capital account transactions, without adequate regulatory and supervisory facilities in place. The Thai private sector including finance companies, commercial banks, and many private companies, went on the borrowing and spending sprees in the late 1980s, thanks to the low interest abroad and high interest at home, the chance to speculate in the stock and property markets, and the certainty of government's policy to fix the exchange rate with the US dollar. It was the massive inflows of short-term capital, and the sudden outflows of this capital in the aftermath of the failure of the Thai authority to defend the baht against continuous speculative attack on its currency that had brought about severe financial and economic crisis. Thailand is now trying to learn from the past mistakes. It wants to remain open without suffering from the consequences of too much openness.

Indonesia suffered the same loss of confidence from foreign investors when the weakness in its banking and financial sectors were exposed, and foreign capital started to flow out. Indonesia had indeed gained from its much earlier liberalisation of its economy, but its leader who stayed in power for too long, and was involved in extensive nepotistic, collusive and corrupted practices was a major cause for political

troubles that came on top of financial troubles, causing the country to go up in flame. Is globalisation to blame for this? Representing one view, Ann Marie Murphy (1999), is of opinion that it is unlikely that Indonesia will wholeheartedly embrace globalisation in the future. She claims that most Indonesians find liberal economics unappealing and have blamed globalisation for the country's economic suffering. But this negative view of globalisation among Indonesians could be a result of the mixing up of political discontent with economic troubles. Most Indonesians accepted and recognised the benefits of economic liberalisation that had brought about prosperity to the country compared to the situation 20 years ago, but the benefits from liberalisation was marred by political immobility. Once the political development is stabilised, it is possible that the acceptance of liberalisation and globalisation may return.

The case of Malaysia is similar. Malaysia started its modern economic development by opening up its economy through foreign direct investment and export promotion. With efficient bureaucracy and the adherence to the rule of law (probably the legacy of the British) Malaysian growth has been orderly despite the racial conflicts between the Chinese and the Malays which resulted in the New Economic Policy that gave special economic, social and political favour to the indigenous Malays. A typical statement by the Malaysian leader (Dr. Mahathir Mohammad) concerning the concept of globalisation and the involvement of Malaysia is clear on how important globalisation is to Malaysia. This is what he said in his Vision 2020 statement:

“Our economic objective should be to secure the establishment of a competitive economy. ...It must mean, among other things, a diversified and balanced economy with a mature and widely based industrial sector, a modern and mature agriculture sector and an efficient and productive and equally mature services sector, ...an entrepreneurial economy that is self-reliant, outward-looking and enterprising; ...and economy that is subjected to the full discipline and rigour of the market forces.” (as quoted in Welsh, 1999, p. 266).



Regrettably, the crisis in 1997 had caused Dr. Mahathir to change his perception of globalisation. He suspected that there were forces in the West that were trying to undermine the progress of Malaysia. This suspicion has translated into his redefining of globalisation as a threat to Malaysia and adopted policies to limit the effects of global forces. Dr. Mahathir's use of capital controls in September 1998 could be seen as one such policy. However, it is possible that this change of perception of globalisation is conditioned by political instability in Malaysia, just like what happened to political stability in Indonesia. Once this political instability is gone, positive domestic response to globalisation may return again.

#### **4. Conclusions and Lesson for the Future**

In this paper, I have discussed the origins or sources of globalisation which give rise to different types or categories of globalisation. It was pointed out that technological progress alone is not the only driving force behind globalisation, international trade, investment and payment are also the main factors that drive countries to trade among one another and enjoy the benefits of the gains from trade. These benefits may vary according to the development and pre-conditions of each country. Its leaders can become enthusiastic followers of globalisation, anti-globalists, or something in between. I have pointed out the enthusiastic responses of Korea, Singapore, Taiwan, and Thailand, the cautious or conditional responses of China, Japan, Philippines, and Indonesia, and the negative reaction to simple (or simplistic) globalisation perceived by Malaysia and its political leader. These domestic policy responses have enabled us to understand several policy stances of these countries in many international issues such as the role of Asia and Pacific Economic Cooperation or APEC, the commitments under the World Trade Organization or WTO,

What should be the lesson for the future? One thing is clear and certain from the above discussion: despite the economic crisis that can be said to be caused by globalisation, countries in East Asia are not abandoning free-market trade and investment yet. Indeed, it could even be argued that the speed with which the solution of, or recovery from the deepest economic crisis experienced by these many East Asian countries could also be attributable to the impact of globalisation, that is the quick return of economic confidence from foreign investors, resulting the inflows of capital of a more sustainable kind (more long-term rather than short-term capital; more productive and less speculative investment, and so on). The recent economic crisis in East Asia should provide a valuable lesson to the affected countries, and other non-affected countries as well, that one should not get carried away by the initial success of globalisation and forget to be careful in one's handling of the long-term process of globalisation. Not only that we must make a proper preparation for globalisation (proper sequencing of liberalisation of the economy, for example), we must also build necessary institutions, construct appropriate regulations, and mount adequate supervision in response to the ineluctable encroachment of globalisation. If one fails to do these, more harm rather than help can come from globalisation.

Recently the influential news magazine, *The Economist*, ran a cover story on the case for globalisation.<sup>4</sup> In it, the magazine believed that the anti-globalisation (or anti-capitalist) groups, despite their noble and well intention, could be a dangerous group indeed for the welfare of the people in general, and of the poor in particular. According to *The Economist*, the advances achieved in computing and telecommunications in the West offer enormous scope for raising living standards in the third world as new technologies promise not only big improvements in local efficiency, but also the further and potentially bigger gains that flow from an infinitely denser network of connections, electronic and otherwise, with the developed world. The 'gains' just referred to, said

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<sup>4</sup> *The Economist*, September 23<sup>rd</sup>-29<sup>th</sup> 2000.

*The Economist*, are not, or not only, the profits of western and third-world corporations but productive employment and higher incomes for the world's poor. To stifle the main force of globalisation, or to avoid facing it and adjusting to it, is likely to bring in missed opportunities in the long run. Should the government throw their hands on this issue and dissociate itself from this controversial issue of the day, and let the process of globalisation proceed along helter-skelter? Perhaps not. The following is the last words that *The Economist* had on its feeling toward globalisation:

- “It would be naive to think that the governments could let integration proceed mainly under its own steam, trusting to technological progress and economic freedom, desirable as that would be. Politics could never be like that. But is defending globalisation boldly on its merits as a truly moral cause—against a mere rabble of exuberant irrationalists on the streets, and in the face of a mild public scepticism that is open to persuasion—entirely out of the question? If it is, as it seems to be, that is dismal news for the world's poor.”

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# **13. EMERGING FORMS OF REGIONAL COOPERATION IN EAST ASIA: AN EXAMINATION OF BILATERAL FREE TRADE AGREEMENTS AND THEIR TRADE AND INVESTMENT CONSEQUENCES\***

**By Medhi Krongkaew\*\***

## **1. Introduction**

East Asia is always in the limelight. In the early 1990s, the growth of countries in East Asia was so high, and the transformation from less developed to newly industrialising economic status was so fast that many would call this phenomenon ‘an East Asian Miracle’. Then towards the end of the 1990s disasters struck, and many of these miracle economies were humbled by serious financial and economic crises. Recovery was relatively rapid, nonetheless, and many of these economies are now on the mend. Now many of these East Asian economies are engaging in some economic innovations that make news throughout the international economic and business circles: They are pursuing, with great enthusiasm, bilateral free trade agreements (FTAs) among themselves as well as with other countries across the Pacific.<sup>1</sup> New Zealand and Singapore concluded an FTA in November last year. Singapore and Japan has just finished their joint study on the effects of their so-called New Age FTA, and now in the process of negotiation for the final agreement expected at the end of 2001. Japan is also planning to enter into an agreement with

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\* Paper presented at the International Conference on The United States, Japan, and Economic Recovery: Foreign Investment in Asian Developing Economies, organised by the Department of Political Science and the Center for Southeast Asian Studies, Northern Illinois University, De Kalb, Illinois, March 29-30, 2001.

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<sup>1</sup> Note that FTA here is free trade agreement, not free trade area, as the same abbreviation may be used in some other literature.

Korea and Chile. Korea also would like to do it with Chile. Singapore has already started talk with Mexico and there should be some progress on this agreement soon.

Can we call this wave of new developments economic innovations? Many would not accept that, as bilateral FTAs and similar forms of regional or subregional trading arrangements have been in existence for a long time. Of course what is meant by FTA here is a broad term that describes various forms of regional cooperation including free trade area, customs union, common market, and economic union. The mother of all FTAs today is probably the European Union which has developed step by step from a free trade area to a customs union and finally to an economic union. In North America, the North America Free Trade Area or NAFTA is approaching its 10th anniversary. In South America, MERCOSUR grouping between Argentina, Brazil, Paraguay and Uruguay is a well-established FTA. Even in Southeast Asia itself, the Association of Southeast Asian Nations or ASEAN which has been in existence since 1967 is gearing towards the eventual AFTA or ASEAN Free Trade Area in 2003. According to the World Trade Organisation or WTO, more than 200 FTAs have been registered or notified as of the middle of last year, and over 130 of these are currently in force.<sup>2</sup> So, what else is new?

The answer lies in the intricate linkages of these new FTAs in East Asia with the Asia Pacific Economic Cooperation or APEC which is probably the most well-known economic grouping in the world today after the European Union. Strange as it may seem, what makes these new East Asian FTAs unique is because they are being formed by members of APEC, which already have set the goals for free trade arrangements among themselves (by 2010 for developed members, and 2020 by developing members). If APEC is already aiming for free trade in the region, why should there be any overlapping attempt or effort to create a separate bilateral FTA? The potential conflict between this new FTA and the APEC process itself is already causing puzzles among international

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<sup>2</sup> Source: WTO, July 2000.

economic experts, and thus a source of intrigues. Some would even go so far as to say that these emerging new FTAs would actually spell an early demise for APEC. Others would think otherwise, believing that there is no real deleterious conflict between the new FTAs and the APEC process. Indeed, the opposite is true that the new FTAs would bring about an early realisation of APEC goals of freer trade and investment in the Asia Pacific region. The above puzzles and ensuing debates should be enough to convince doubters that the bilateral FTAs in East Asia as an emerging form of regional cooperation is not an ordinary FTA. That is why it will be called New FTA in this paper. And if this form of FTA succeeds within the context of APEC, it could be rightly called a worthy economic innovation.

In the ensuing sections of this paper, therefore, we will try to examine and analyse the New FTAs among member of APEC in East Asia and the Pacific region as to their strengths and weaknesses, the opportunities and threats to the APEC process, and the prospects that these FTAs may coexist with their continuing support and active participation in APEC. After this introduction section, Section 2 looks at the traditional debate on pros and cons, or the benefits and costs, of FTAs, taking into account both theoretical and empirical investigations that have been conducted in various places throughout the world. Section 3 discusses the unique development of APEC as a precursor of a much larger and much more beneficial free trade arrangement, and how it affects the advent of the New FTAs. Section 4 examines some highlights of these new East Asian FTAs, especially the one that has already been established between New Zealand and Singapore, the one that is being negotiated between Singapore and Japan, and the forthcoming launch of discussion between Japan and Korea. Section 5 briefly considers the trade and investment consequences or implications of both APEC and these New FTAs. Finally, Section 5 concludes and provides some remarks on the future of these FTAs as an emerging form of regional cooperation in East Asia.

## 2. The Benefits and Costs of an FTA<sup>3</sup>

The debate on the benefits and costs of a free trade arrangement especially in the form of a customs union dated back to 1950 when Jacob Viner coined the terms ‘trade creation’ to describe welfare change (gain) due to the replacement of higher-cost domestic production of imported goods with lower-cost imports, and ‘trade diversion’ which describes welfare change (loss) due to the replacement of imports from a low cost source to imports from a high cost source. So, basically a customs union is beneficial to members if it has caused trade creation, but detrimental to members if it has caused trade diversion. But from then on several researchers and scholars have had opportunities to examine the benefits and costs, or the pros and cons, of a free trade arrangement. For example, in 1955, James Meade published a book on theory of customs union; in 1971, Jagdish Bhagwati wrote an article on customs unions and their welfare implications; in 1976, Murray Kemp and Henry Wan published an article which later became the origin of what is now known as the Kemp-Wan Theorem. This theorem argued that if we allow the possibility of costless redistribution between members, and the ability to set common external tariff at an appropriate level, then it is possible to prove that a customs union needs never harm any country.<sup>4</sup>

Theoretical debates on the effects of customs unions and other forms of economic integration simmered down somewhat in the late 1970s and 1980s but picked up again in the 1990s. This could be because of several important events that marked meaningful economic integration and regional cooperation episodes: the successful conclusion of the Uruguay Round of multilateral trade negotiations, the development of

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<sup>3</sup> This section draws mainly from Christopher Findlay (2001).

<sup>4</sup> For the most recent and most comprehensive survey of theoretical studies on various categories of free trade arrangements, see Arvind Panagariya, “Preferential Trade Liberalisation: the Traditional Theory and New Developments”, *Journal of Economic Literature*, vol. 38, June 2000, pp. 287-331. It should be noted, however, that Panagariya only surveyed the literature on preferential liberalisation of tariffs on goods, and nothing on ‘trade agreements’ where trade preferences play no explicit role.

European Single Market, the establishment of Asia Pacific Economic Cooperation (APEC), the successful launch of the North American Free Trade Area (NAFTA), and so on. This has spurred several studies on free trade arrangements again. But the situations in the 1990s have become more complex. Advanced technology has increased the speed of communications and telecommunications, and the adjustments and changes in the behaviour of the people have also become more rapid. This has a great deal of impacts on how new international trade could benefit or harm trading partners and the people in each trading country, and the non-member countries and their people. There are little disagreements among economists as to the benefits of multilateral trade liberalisation. Built on the simple but powerful theory of comparative advantage where specialisation and free trade bring about gains from trade to all trading partners, multilateral free trade system is, at least theoretically, to be preferred to preferential trading system. But then why a rush to preferential agreements among two or few members? In the last few years, a series of new studies on these preferential trading system vs. multilateral free trade system have been published which have shed more lights on the new thinking on the new free trade agreements. We will take a look at some of these arguments on the positive as well as negative sides.

### **Positive Effects of FTAs**

Apart from the positive effects of trade creation as a result of customs union or other forms of preferential trading arrangements, we have seen other arguments as well. For example, there is a terms of trade effect as a result of preferential arrangement in such a way that members' terms of trade improve.<sup>5</sup> There is also a possibility of the relocation of rents away from non-members or foreign firms in a member

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<sup>5</sup> This can happen when a small country, which is a member of a customs union, gains by diverting its trade away from a large non-member country which determines world prices and which imposes a tariff on this small country's imports. See Findlay (2001) in this argument which he attributed to the work of Neil Vousden of Australian National University.

country. For example, a preferential arrangement may lead to entry by firms from other members into the imperfectly competitive market of a member of whom some of the profits were captured by foreign firms. The same preferential arrangement can also bring about opportunities to exploit economies of scale as well as the diversion of flows of foreign capital from non-members to members. But as Krueger points out in her recent paper, despite all these positive effects, it is difficult to come up with firm general rules about when a preferential agreement is good for members. It is normally believed that if the existing level of trade is high, the extent of costly trade diversion will be less. Another condition is that if the external tariffs at the time of establishment of preferential trade agreement are low, then the chance of significant losses from trade diversion will be low too.<sup>6</sup>

Christopher Findlay surveyed some of the recent studies on the positives effects of preferential trade arrangements and reported that there is what is known as the dynamic time path effects, or in other words, preferential arrangements build the momentum for further multilateral liberalisation. The preferential agreements between Australia and New Zealand (so-called Closer Economic Relations or CER) are often used as an example of this time path effect. Findlay also reported a study by Caroline Freund on serial bilateralism, that is when the outcome of a bilateral agreement is good or beneficial, each country will want to sign an agreement with every other country. The benefits from this bilateral agreement may include higher profits from preferential access to foreign markets, and higher consumer surplus at home. These gains always outweigh the loss of profits in the home market and the loss of tariff revenue from offering access to foreign suppliers at preferential rates. According to Freund, this is the case whatever agreements are already in place and whatever other economies have done. The consequence is that the best strategy for each economy is to have a bilateral agreement with every other economy. In this model uncoordinated bilateralism will lead to free

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<sup>6</sup> See Anne O. Krueger (1999).



trade. Findlay summed up other benefits of preferential agreements as follows:

- Preferential agreements help ‘lock in’ policy change. Policy change which is announced by which is not credible will not have any impact. The commitments made in a preferential agreement provide one way of adding to the credibility of policy change, since backsliding will be punished by loss of the advantages provided by the agreement.
- Preferential agreements may lead producers in economies with high external tariffs to argue for lowering those tariffs, especially the ones applying to intermediate goods.
- Preferential agreements can be used as a threat to promote the multi-lateral process. They can help participants go further than they could in the multilateral system. They can establish deal with new policy issues and with emerging impediments to trade and investment. Also, a preferential approach is said to help the process of education about free trade and its benefits.

### **Negative Effects of FTAs**

At least five negative views on FTAs could be listed:

- Benefits from preferential agreements can also come from a general liberalization of trade, and will also be larger in that case.
- Members of preferential agreements are more likely to raise barriers to non-members, even when external tariffs are low.
- Preferential structure may bring about or create rents members. But once they get used to the benefits from these rents, members do not want to give them up as they cannot be compensated by the move to freer trade. This is the ‘snout in the trough’ phenomenon as Findlay has called it.
- Negotiation of preferential agreements uses up scarce policy making and negotiating capacity and diverts attention in the policy making system.

- Other multilateral mechanisms provide even better benefits than those claimed for a preferential agreement. The WTO for example provides mechanisms for binding policy that avoid the disadvantages of trade diversion.

Assuming that FTAs contain or cause negative effects, or at least not clearly superior to multilateral trading systems, why there are so much on-going rush to form FTAs in the world today, especially in East Asia? One clear answer is the loss of confidence among private investors in the multilateral process. An analysis by John McLaren of Columbia University (as reported by Findlay) is interesting. In McLaren's model, investors in a given country will behave according to the expectations of the world trading systems. If free trade on a global basis is expected, these investors will invest in areas where they have a comparative advantage. If instead trade blocs are expected, then, they will invest differently. In the latter case, firms within bloc will invest more in the sectors supplied by goods exported by non-members, and they will also become more specialized relative to one another. In this case the actual gains from a preferential agreement will exceed those from multilateral liberalization. If in addition, there are 'negotiating frictions' which make the multilateral liberalization process costlier, then, ex post, multilateralism might not be worth the effort. The expectation of its failure creates a new set of investments, leading to the realization of a preferential outcome.

In 1995, Richard Baldwin (1995) presented another interesting theory behind the increase in regionalism. According to him, expansion of trade bloc depends on the willingness of the existing members of offer entry and the incentives facing outsiders to seek entry. These outsiders face 'non-economic' costs of getting into the bloc, and these costs increase as more have been admitted into the bloc. This means that successive countries require larger and larger economic incentive to seek entry. At the initial equilibrium, the economic benefit of membership to the last member in the bloc equals its non-economic cost. Assuming that the profitability within the bloc increases, the potential economic benefits

of entry for the next country must also increase. The bloc expansion has created a 'domino effect' that may eventually encompass the whole world, leading to the global free trade. Recently, Gandal and Shy (2001) looked at the incentives for a preferential approach from the point of view of the recognition of standards. In their study model, targeted economies face a choice of recognizing all standards after a union or none of them. They were able to show that welfare of members is maximized if they recognize all standards. This mutual recognition of standards within the preferential system will eventually lead to the universal mutual recognition of standards which signifies the global trading system.

The above are just a few analyses that we have found in a recent literature on the debate on regionalism vs. multilateralism. But it suffices to show that there are reasons to explain, on theoretical terms, the increase of regionalism within the proven beneficial system of multilateral trade agreements. Perhaps we should look at the empirical evidence as well whether preferential agreements have different effects on trade and welfare compared to multilateral agreements. Findlay (2001) conducted a few surveys of the empirical findings of the impact of preferential agreements on trade and welfare, and the followings are the summary of some of those findings.

- Anderson and Norheim (1993) apply and extend a set of indicators which can be used to comment on the extent to which preferential agreements have affected the growth in the propensity of members of preferential agreements to trade outside the group. Their conclusion is that global integration has deepened despite the greater number of and coverage of preferential agreements. But they still stress that the world might still have been a better place without the agreements.
- Laird (1999) looked at the shares in total exports over the 1990s up to 1997 of within-group and out-of-group trade for a series of preferential arrangements, and compared the growth of these two types of trade. The picture is mixed. Trade grew faster among members than with non-members in many agreements but at about the same

rate for both groups in the case of the European Union. Also trade with non-members in many cases actually grew faster than world trade on average.

- Srinivasan, Whalley and Wooton (1993), reviewed a large number of studies using computable general equilibrium models on the welfare effects free trade areas and customs unions and found that the welfare effects of preferential agreements are probably positive but not necessarily very large. They suggested that those who are in favour of, or oppose, preferential agreements are probably overstating the quantitative assessments in support of their case.
- Davis, McKibbin and Stoeckel (2000) used a quantitative model to simulate the effects of a free trade area involving AFTA and CER, and found positive effects of a joint AFTA-CER free trade area (see more on this later). They have also found that if APEC proceeds to form its free trade area on schedule, then the additional gains from negotiation of the AFTA-CER arrangement will be relatively small.

Here, again, the results are inconclusive as to whether preferential agreements increase or reduce trade and welfare of members and non-members, or whether preferential agreements will definitely harm multilateral agreements. It seems that factors outside the strict economic welfare considerations may play an important role in influencing countries to enter into preferential free trade agreements. Perhaps it is appropriate now to consider the real cases of FTAs that have taken place in East Asia in the last few years. But we will do this under the context of the APEC process. In other words, we will analyse these recent FTAs on the premise that contracting parties are members of APEC and participate fully in other aspects of Asia Pacific economic cooperation. Under this assumption, the picture emerged from the result of the analysis may be different from the approach whereby APEC has little or no effect on the decision to enter into a preferential agreement.

### 3. APEC and the New FTAs

We will ask a series of questions in this section to get a clear picture on the relationship between APEC and the New FTAs. The first question is: What is APEC, and what connection does it have with an FTA? Despite its well-known name and high-profile existence, few can profess to know exactly what APEC is. It is neither a trade bloc nor an FTA because it does not bind members to a certain compulsory rule concerning trade. Neither is it a general agreement like GATT which also binds members to follow certain rules or procedures with provisions for sanctions or penalties if that member refuses to abide by them. It can be looked upon as an international organisation, like the OECD, but without large or centralised organisational structure and well-defined international bureaucracy. Perhaps the original definition by Professor Yamazawa Ippei of Japan would capture the true essence of APEC. To him, APEC is an open economic association. (Yamazawa, 1992). It is open because it does not seek to discriminate against non-members. It is economic because it deals basically with economic growth, trade and investment. And it is an association because participants do not cede powers of regulation or enforcement to any supra-national regional institution. Unlike GATT and its metamorphosis, the WTO, APEC is a voluntary organisation based on consensus aiming at free and open trade and investment in the region, not a rules-based organisation with sanction power like the WTO.

The second questions is: If it is so loose like this, who would be interested in joining? Many. Indeed, from its inception in 1989, where 12 market-oriented nations formed the first group of members, APEC has expanded to include, by 1999, 21 members. And many have expressed their intention to join in as new members to the point that existing members have to declare a moratorium on new members until 2007. To avoid sticky diplomatic point about sovereignty issues, members are called 'economies' rather than 'countries'. These economies join APEC because they believe in free trade and investment and are willing to work toward the ultimate objective of free trade in the Asia Pacific

region voluntarily and unilaterally along with other members in this unique association or organisation. Because APEC works as a group, its action is perceived to be multilateral in the WTO sense. It is leading as well as supplementing WTO at the same time, leading because it already set the target date for free trade in the Asia Pacific region by 2020 at the latest, and supplementing because it adopts the WTO principle of non-discrimination and most-favoured-nation treatments to all members. And APEC members do these multilateral commitments unilaterally and without reciprocity.

The third question is: If the setup is so progressive and forward-looking, and in the best tradition of desirable multilateral trade liberalisation, then why so many APEC members opted out to spawn many bilateral FTAs among themselves? There are at least 3 reasons for this. The first reason is that, although all APEC members are basically pro-free trade, there are certain sectors in some economies that require more time to adjust to the new competitive economic conditions brought about by free trade. The time horizon for free trade in the region to take place (2010/2020) seems reasonable enough for this to materialise. But to force an early uniform liberalisation in certain sectors like an attempt at an early voluntary sectoral liberalisation or EVSL by APEC in 1998 was somewhat premature, and this has proved to be the case when APEC members failed to agree on this EVSL efforts in 1998. APEC is not a forum for this kind of trade negotiation; WTO is. But APEC members who are ready may go ahead with their FTAs while they still work inside APEC for the system-wide liberalisation. The second reason is that in the absence of any new multilateral trade negotiations a la WTO, the momentum towards trade liberalisation may be losing. So, new FTAs could be looked upon as an attempt to stimulate movement or pressure towards a new round of multilateral trade negotiations. And the third reason is that an FTA under or within APEC is WTO-consistent, that is does not want to discriminate against any particular APEC members. In fact, most of new FTAs under or within APEC will provide accession clause for other APEC members to join in if and when they see that they

are ready for it.<sup>7</sup>

Yet there are still those who believe that a subregional trading arrangements in the form of FTAs among APEC economies are not necessarily always a good idea as these arrangements are likely to divert attention from the wider objectives of the APEC process and its commitment to open regionalism, and strain its cohesion. An example of one who holds this view is Andrew Elek of the Australian National University who was one of the early proponents and indeed initiators of APEC (see Elek, 2000). Elek believes that, even with the best of intentions, it will not be easy for FTAs partners to address the relatively new issues of barriers to trade and investment and other significant impediments to international commerce without creating new discrimination and diversion of economic activity. If these relatively new issues are addressed in association with a preferential FTA, these arrangements could be discriminatory by default. To him, FTAs that are consistent with the Bogor goals of APEC must satisfy two conditions: one, they must be comprehensive, covering all trade in goods and services, and two, the schedule for eliminating borders barriers to trade among members is to be completed by 2010 for any developed economies or by 2020 for any developing economies involved in such arrangements. A better suggestion is to adopt what is known as ‘cooperative arrangements’ that go beyond, say, FTA for goods and/or services to include arrangements to facilitate trade and investment such as a dispute settlement procedure. Elek proposes a set of guiding principles which were built on already-agreed APEC principles with emphasis on

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<sup>7</sup> To form a preferential trading arrangement that is WTO-consistent, trading partners must follow Article 24 of the GATT/WTO. GATT article 24 allows countries to grant special treatment to one another by establishing a customs union or free-trade association, provided that (1) duties and other trade restrictions are “eliminated on substantially all the trade” among the participants, (2) the elimination of internal barriers occurs “within a reasonable length of time” (commonly interpreted as permitting a phase-in period of not more than 10 years), and (3) duties and other barriers to imports from nonmember countries “shall not on the whole be higher or more restrictive” than those preceding the establishment of the customs union or free-trade association. The third condition was explicitly aimed at protecting the rights of outside countries.

transparency, avoiding new obstacles to trade and investment, and creating objective, non-discriminating opportunities for accession.

Other critics of a non-WTO-typed liberalisation (not necessarily only FTAs, but sector-by-sector liberalisation as well) are Vinod K. Aggarwal of the University of California at Berkeley and John Ravenhill of the University of Edinburgh who caution against being misled by the past successes in sectoral agreements in telecommunications, financial services, and information technology.<sup>8</sup> They believed that the success in the ITA case is a special case which is unlikely to be repeated in other sectors. Therefore, the continuation of sector-by-sector trade liberalisation or what they would call, 'Open Sectoralism' is fraught with political and economic hazards. They cited the APEC's experience with sectoral liberalisation where political difficulties arise while constructing a package that will satisfy all participating governments when negotiations are conducted in only a limited number of sectors. According to Aggarwal and Ravenhill, in such circumstances domestic protectionist interests are mobilised. Without a comprehensive approach to trade negotiations, the political influence of these protectionist forces cannot easily be offset by groups with a strong interest in the liberalisation of other sectors. Economically open sectoralism often concentrated in areas where there were few impediments in the first place, but protection is maintained elsewhere. The result is to increase rather than reduce distortions in the domestic economy. They concluded that liberalisation of some sectors and not others undermines broader, more inclusive efforts, while temporary protection of some sectors can be worthwhile if it allows broad scale liberalisation elsewhere. They believed that to promote widespread trade liberalisation and efficient resource allocation, one must return to multisector, multiproduct negotiations, and the tradeoffs that such discussion entails.

As it will become clear when we discuss several bilateral and other regional FTAs in the next section, most of the above dissenting

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<sup>8</sup> See Aggarwal and Ravenhill (2001).



points have been taken care of in the New FTAs that have cropped up in East Asia in the last few years. Suffice it to say that the influence and pressure of APEC have borne on the patterns of behaviour of APEC members who decided to go the FTA route in tandem with their continued participation and support of APEC. In fact, not only that these New FTAs are WTO-consistent, they are—to use the jargon used by Andrew Elek, APEC-consistent. Therefore, APEC has definitely established some positive connections with the New FTAs.

#### **4. Salient Characteristics and Features of East Asian FTAs**

That East Asia is a newcomer in the FTA business is beyond any doubt, but the stories behind the formation (or prospective formation) of East Asian FTAs are no less unique and interesting than those in other parts of the world. This section will take a look at salient characteristics and features of some of the East Asian FTAs or prospective FTAs.<sup>9</sup>

##### **(a) ASEAN Free Trade Area (AFTA)**

The agreement to deepen the economic cooperation among, then, 6 countries of the Association of Southeast Asian Nations or ASEAN to a free trade area was concluded in early 1992, but the establishment of ASEAN itself dated as far back as 1967. It is true that there was not much economic activity among ASEAN members during its two decades of its existence, but after most of these ASEAN member countries started to grow quickly each on their own in the latter half of the 1980s, economic activities among members increased. It is ironic that despite its relative economic inactivity in the 1970s and 1980s, ASEAN had maintained its strong presence as a regional political grouping, with its effective ‘ASEAN Solidarity’ that, among other things, helped bring about

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<sup>9</sup> For information on how APEC works and how it has influence on the minds of policy makers in APEC, see Box 1.

settlement of conflicts in Cambodia. Economic activities and prosperity in the 1980s and early 1990s have given rise to the prominence of ASEAN as an influential regional economic grouping while maintaining its strong political role through new political and security activities forum called ASEAN Regional Forum or ARF.

At the heart of the economic components of AFTA is the Common Effective Preferential Tariff (CEPT) scheme which involves the phasing down of intra-ASEAN tariffs to a range of 0-5 per cent as well as the elimination of non-tariff barriers over a broad range of goods by the end of 2002.<sup>10</sup> The ultimate target is to eliminate all customs duties by 2010 for the first six members (Brunei, Indonesia, Malaysia, Philippines, Singapore and Thailand), and 2015 for the four newer members (Cambodia, Laos, Myanmar and Vietnam). And apart from this basic liberalisation in trade in goods, ASEAN members also agreed to liberalisation of trade in services beyond their commitments under the General Agreement on Services (GATS) of the WTO, and to liberalisation of investments by signing the ASEAN Framework Agreement on Services (AFAS) and the Agreement to establish ASEAN Investment Area (AIA) during the 5th ASEAN Summit in 1995. Other elements of regional cooperation include trade facilitation, technical assistance among members, protocols on rules and disciplines, and openness to other regional groups.<sup>11</sup>

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<sup>10</sup>The original ending period was 2005 but this was moved forward to 2003 and finally to 2002 during the 6<sup>th</sup> ASEAN Summit in December 1998 in Hanoi.

<sup>11</sup>It should be mentioned that difficulties arising from some ASEAN members' inability to meet the CEPT obligations by the year 2002, especially by Malaysia in its auto industry, forced ASEAN members to do an about-face by endorsing the Protocol Regarding the Implementation of the CEPT Scheme Temporary Exclusion List during the 32<sup>nd</sup> ASEAN Economic Ministers Meeting in Chiang Mai in October 2000 which was signed by ASEAN leaders during the 4th ASEAN Informal Summit in Singapore in November 2000.

**(b) Closer Economic Relations (CER) between Australia and New Zealand, and the Proposal for an AFTA-CER Free Trade Area**

This common name, CER, has become known for the free trade agreements between the two oceanic countries, Australia and New Zealand, which was concluded in 1983. Throughout the last two decades, the CER has developed to the point that, not only all tariffs and quantitative restrictions on trade in goods are eliminated, but much further actions on liberalisation were also accomplished, including the elimination of all export incentives and subsidies and anti-dumping measures. The agreement as it is today also covers services and addresses the harmonisation of a range of non-tariff measures that affect the free flow of goods and services, including those relating to quarantine and customs issues, standards and business laws.

What is more interesting is the proposal by the CER to enter into an FTA with ASEAN. This was started during the informal consultations between economic ministers of ASEAN and the CER in 1995 and has developed into the proposal for AFTA-CER Closer Economic Partnership (CEP) in 2000. This proposal probably gives the most comprehensive coverage of FTA features than any FTAs in East Asia to date. There is still a long way to go for this prospective FTA, but once this AFTA-CER FTA is established, it could be the benchmark against which all other FTAs could be measured (See Box 2 for detailed conditions for this FTA).

**(c) Agreement between New Zealand and Singapore on a Closer Economic Partnership (ANZSCEP)**

While the AFTA-CER FTA is still on the drawing board, another FTA between two members of ASEAN and CER has already been concluded. This is Agreement between New Zealand and Singapore on a Closer Economic Partnership, which is the full name for what otherwise is known as the New Zealand-Singapore FTA, which, incidentally, is also the first New FTA in East Asia from among APEC members. New Zealand and Singapore are not large trading partners in comparison with

other nations, but both have similar important economic characteristics. Both are small and very market-oriented, and because of their smallness, their economic future depends on trading with other nations. The decision to enter into an FTA is much more than the wish to abolish tariffs on trade on goods between themselves, but a much larger economic objective of stimulating freer trade and closer economic cooperation in the Asia Pacific region. A look at the official text of the agreement on the objective of this agreement will tell the story. The objectives of New Zealand and Singapore in concluding this Agreement are:

- a) to strengthen their bilateral relationship through the establishment of a closer economic partnership;
- b) to liberalise bilateral trade in goods and services and to establish a framework conducive to bilateral investments;
- c) to support the wider liberalisation process in APEC and in particular the efforts of all APEC economies to meet the Bogor goals of free and open trade and investment by 2010 at the latest for industrialised economies and 2020 at the latest for developing economies;
- d) to support the World Trade Organisation (WTO) in its efforts to create a predictable, freer and more open global trading environment;
- e) to improve the efficiency and competitiveness of their goods and services sectors and expand trade and investment between each other;
- f) to establish a framework of transparent rules to govern trade and investment between them; and
- g) to accord fair and equitable treatment and protection to bilateral investments.

Objective (c) is very important in the context that we are discussing in this paper. This is the first time that a reference is made explicitly to APEC in the process of their FTA, to show that there is no conflict

between the existing concept of APEC and the New FTA. Indeed, the opposite is true that the New FTA could help APEC realise its Bogor goals faster. Objective (e) is also a new addition to the dynamic effects of FTA, that the New FTA is not just for preferential trade alone, but an opportunity to improve efficiency in the economy for greater competition and economic expansion through investment. Perhaps the statement by the Prime Minister of Singapore, Mr. Goh Chok Tong, at the signing ceremony of this Agreement in Singapore in November 2000 captures the essence of this FTA well. Mr. Goh, said, in part:

“...This FTA is a milestone in our bilateral relations. Ties between our two countries have always been strong. But our FTA marks the beginning of a new chapter of an even more intense and closer friendship.

Economically, this Agreement will open up new opportunities for businessmen from both countries. It will help Singapore companies exporting to New Zealand. Conversely, while the regime in goods in Singapore has traditionally been open, we have made substantial commitments in the area of services for New Zealand companies.

The benefits of FTAs are not limited to securing better access to markets. FTAs can also provide an additional impetus for economies to restructure to meet the challenges of the New Economy. The increased competition for our local companies resulting from the New Zealand-Singapore FTA will sharpen our economic competitiveness. This is true also for both New Zealand and Singapore.

The New Zealand-Singapore FTA has also helped us achieve our wider strategic goals. We set out a year ago with the objective of using a New Zealand-Singapore FTA to catalyse APEC towards

its Bogor Goals. The intention was to spin a web of inter-locking FTAs between APEC members, which would help move the organisation towards achieving free trade in the Asia Pacific.

We are today many steps closer to achieving an APEC-wide FTA.

FTAs, however, should not be pursued at the expense of the multilateral trading system. We must continue to invest efforts towards the launch of a New Round, to ensure that the gap between FTAs and the WTO does not grow so wide that it becomes irreconcilable. A global environment dominated by FTAs may leave behind those countries which are unattractive FTA partners. Hence, it is important that FTAs lead to a new round of negotiations under the WTO”.

The ANZSCEP came into force on January 1, 2001. On the last day of the same month, officials of Singapore began formal negotiations on forming another FTA with another APEC member, Japan. Once this agreement is completed and the new FTA launched (expected at the end of 2001), the world will witness another spectacular economic event.<sup>12</sup>

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<sup>12</sup>Not everyone is ecstatic about this FTA between Japan and Singapore. The role of Singapore as a keen initiating party to set up an FTA was actually criticised by some. Jesus Estanislao, former Dean of the Asian Development Bank Institute in Tokyo commented: “Singapore is going to bed with almost every country but disregarding ASEAN. This is not a coalition of the willing in ASEAN, it is a coalition with one economy jumping over the regional fence and dealing with everybody else. That doesn’t build a structured relationship, as a matter of fact that will marginalise ASEAN” (Allison, 2001, p. 4). Rodolfo Severino, the Secretary General of ASEAN Secretariat also commented that FTA of the type that Singapore is entering into with Japan could dishevel the road map of globalised trading under the WTO. It could lead to discriminatory treatment if we were not careful. “If an FTA is WTO-consistent—that it follows WTO rules and not raise new barriers against non-members—then that’s OK”, he said.

#### **(d) Japan-Singapore Economic Partnership Agreement (JSEPA)**

The above is the formal name for the Japan-Singapore FTA. This FTA, once concluded, will be an even bigger milestone for regional cooperation in East Asia as well as in APEC. For Japan, this FTA will represent a major shift in its foreign economic policy. Since the War, Japan has always been a great supporter of multilateral trading system. Traditionally Japan had shunned bilateral or regional free trade agreements for fear that they were detrimental to the development of multilateral trading system. As Marc Castellano of the Japan Economic Institute remarks, the primary concern was that regional trade pacts, exclusionary by definition, would anger outsiders and lead to more protectionism, which, in turn, would hurt the growth of the world trading system.<sup>13</sup> Then the Japanese perspectives began to change during the prime ministership of Mr. Obuchi Keizo. In May 1999, the Japanese Ministry of International Trade and Industry (MITI) released its 1999 Trade White Paper, highlighting three main reasons for the shift of policy. First, MITI believed that agreements like NAFTA and MERCOSUR have expanded trade and investment flows among members. Second, countries that maintained low government and commercial barriers to trade were likely to benefit more in an era of rapid globalisation. And finally, during the seven rounds of multilateral trade negotiations conducted by GATT, integrated blocs played an important role in enhancing the development of the international trading system. In May 2000, MITI's White Paper on International Trade 2000, again endorsed the policy shift toward bilateral or regional trade agreements.<sup>14</sup>

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<sup>13</sup>Marc Castellano, 'MITI hails regional free-trade agreements, urges Japanese participation', in JEI Report, no. 21, May 26, 2000.

<sup>14</sup>Since December 2000, the Japanese bureaucracy has been reorganised. The Ministry of International Trade and Industry (MITI) is now Ministry of the Economy, Trade and Industry (METI).

But by then Mr. Obuchi, the Japanese Prime Minister, had actually already made up his mind to go ahead with this new FTA. During Mr. Goh Chok Tong's visit to Japan in December 1999, the two prime ministers agreed to set up a joint study group to examine the feasibility and desirability of establishing a free trade agreement between the two countries. A 25-member Joint Study Group was set up to consider the following issues:

- a) The architecture and scope of the FTA. Both the traditional areas of liberalisation of trade in goods and services and of investment, as well as bilateral cooperation in other areas, will be discussed. This is the primary intention to establish a 'New Age' FTA.
- b) Such an FTA would have to be consistent with the WTO rules.
- c) Either country will have the flexibility to take into account sensitive areas including the possible exclusion of sensitive items in such areas as agriculture, forestry and fishery sectors.
- d) Consideration of strategic and economic benefits that both Japan and Singapore could derive from the establishment of such an FTA.

After 6 months, the work of the Joint Study Group was completed, and the Report was submitted to the governments of both Japan and Singapore in September 2000. It is still interesting to look at the reasons this Joint Study Group used to support this New Age FTA. In its opinion, FTAs in the past were regarded as precursors to economic blocs, and therefore stumbling blocks to the GATT/WTO. Now, no FTA can afford to be inward looking, because globalisation has made markets much more inter-linked and inter-dependent. The Joint Study Group also believes that FTAs which are WTO-consistent can have a positive ratcheting effect on global trade liberalisation. FTAs are now seen as an essential tool of international trade policy, complementing the multilateral trading system. In particular:



- a. Because they are easier to conclude than multilateral agreements, FTAs can serve as building blocks towards multilateralism, helping to sustain the momentum of global trade liberalisation;
- b. FTAs can be a testbed for new and innovative models of rules governing economic activity; and
- c. Since FTAs are formed between a small number of partners and at a pace that is comfortable to all parties, they are an effective means of preparing societies for greater transborder exposure at the multilateral level. They provide an important demonstrative effect of the benefits of trade liberalisation without attracting a severe backlash against liberalisation.<sup>15</sup>

#### **(e) Japan-Korea Economic Agenda 21**

The original name for this prospective FTA between Japan and Korea is Action Plan for the New Korea-Japan Partnership for the 21<sup>st</sup> Century. It was suggested by President Kim Dae Jung himself when he visited Japan in October 1998 to make the Korea-Japan economic relationship closer. In his return visit to Korea in March 1999, Japanese Prime Minister, Mr. Obuchi, proposed to go further beyond existing economic cooperation framework toward the strengthening of bilateral relations through a Japan-Korea FTA under the name Japan-Korea Economic Agenda 21. The Institute of Developing Economies (IDE/JETRO) in Japan and the Korea Institute for International Economic Policy (KIEP) in Korea were tasked to study the possibility of forming this FTA together, and preliminary results have already been made available to the public.<sup>16</sup>

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<sup>15</sup>Joint Study Group (2000), p. 1-11. In a related document, the Japanese Federation of Economic Organisations (or Keidanren in Japanese), has given its strongest support to the Japanese involvement in the formation of FTAs with other East Asian trading partners. It even draws up a model or template for a typical FTA that any interesting countries can use. See Box 3.

<sup>16</sup>See, for example, Yamazawa (2001).

It was reported, at least from the Japanese side, that when the agreement comes to force Japanese exports to Korea would increase more than Korean exports to Japan as Korea's average tariff rate on Japanese products is higher than Japan's average tariff rate on Korean products (7.9 per cent against 2.9 per cent). Korea's trade deficit with Japan would increase further. Moreover, many Korean firms would not be able to compete with Japanese firms producing the same products, and would face economic difficulties. On this point, the Japanese side has tried to explain that given the nature of industrial development of each country, both Japanese and Korean companies will survive the opening up through intra-industry specialization which will make them more internationally competitive. Also, the combined market or strategic alliances between the two will would attract a large number of US and European firms to invest in the two countries. This is part of the dynamic effects that cannot be captured in the static analysis of simple trade creation and trade diversion.<sup>17</sup>

#### **(f) Other Developments**

Currently there are several more FTAs in the making in East Asia. Singapore is the leader in this form of regional cooperation. Apart from the ANZSCEP already in its bag, and the JSEPA just around the corner, Singapore is already in the middle of the discussion with Mexico, already had two rounds of talk with the US, and just about to start its talk with Australia on similar FTAs. Japan has just completed a joint study on the effects of the possible FTA with Chile, and had expressed its intention to set up an FTA with Mexico. Most surprising of all, perhaps, is China which so far has not entered into any preferential trade agreement with anyone. During the so-called ASEAN plus Three meeting between ASEAN members and China, Japan and Korea during the 4<sup>th</sup> Informal

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<sup>17</sup>It seems that the primary concern of growing trade deficit from the Korean side was allayed by its further study on the trade effects of the FTA, and by the Japanese promise to accommodate the suggestion of including China into the FTA. See Yamazawa (2001), p. 22.

ASEAN Summit in Singapore in November 2000, Mr. Zhu Rong Ji, the Chinese Prime Minister, surprised everyone by proposing an FTA between ASEAN and China. An expert group will be set up to study such a possibility in due course.

The US position on this emerging trend of the proliferation of FTAs in East Asia is of great interest. Apart from its FTA with Israel, Canada and Mexico through NAFTA, and recently with Jordan, the US has no other FTA with any country. That the US is a keen supporter of free trade is never in doubt. But it may have put its total support to multilateral trading system rather than bilateral trading arrangements. The failure of the US to successfully organise the WTO meeting (to launch a new round of multilateral trade negotiations) in Seattle in 1999 has had some effects on the new thinking in the US administration on trade issues. Judging from its recently conclusion of an FTA with Jordan, and its two rounds of talk with Singapore on the possibility of a Singapore-US FTA, it seems that the US has changed its policy stance regarding the involvement with bilateral FTAs as against multilateral trade negotiations. Nothing is clearer than the statement by Mr. Robert Zoellick, the new US Trade Representative during the submission of the Trade Policy Agenda for 2001 to the Congress on March 15, 2001. After reiterating the benefits of free trade to America and the world, Mr. Zoellick notes that while there are approximately 130 free trade agreements in force globally, the US is a party to just two. Then this is what he said:<sup>18</sup>

“America’s absence from the proliferation of trade accords hurts our exporters. To cite just one example, while US exports to Chile face an 8 per cent tariff, the Canada-Chile trade agreement frees Canadian imports of this duty.

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<sup>18</sup> See Zoellick (2001), p. 3. It should be noted also that C. Fred Bergsten, a well-known American expert on international trade and finance also warns the US of losing its grips as the world leader on trade if it fails to realize the impending threat from East Asia as a trade bloc. See Bergsten (2001).

If other countries go ahead with free trade agreements and the United States does not, we must blame ourselves. We have to get back into this game and take the lead. We are certainly in a position to do so. Indeed, the United States will be pursuing a number of regional free trade agreements in the years ahead, though not to the exclusion of global talks and the WTO process. The fact that the United States can move on multiple fronts increases our leverage in the global round...”

So, the US is now also in the game of bilateralism or subregionalism concurrently with its traditional support of multilateralism. In April 2001, President Bush will go to Quebec to participate in the meeting of the Free Trade Area of the Americas (FTAA) with a plan to rekindle its serious interest in making this FTA possible. Early on we have pointed out that Japan has just changed its position regarding world trading arrangements from strictly multilateral support to a multi-layered approach to trade policy whereby Japan will continue to base its trade policy on the rules and procedures of the WTO while simultaneously pursuing bilateral agreements with neighbours and key trade partners. When the world's no. 1 and no. 2 economic powers decided that this is what they will do from now on, they are likely to set the trend for others to follow.

## **5. Trade and Investment Consequences of FTAs in East Asia**

Up to this point, we have argued strongly that the New FTAs in East Asia, within or under APEC membership, which is consistent with the principles of WTO, having convenient accession clause, forward-looking beyond the short-term benefits of tariff reduction, will generate dynamic benefits for both members and non-members in the long run. In this section, we will briefly mention the trade and investment consequence of such New FTAs in East Asia.

Intra-regional trade in East Asia happened on its own even without any form of regional trade agreements. Countries in East Asia trade with one another more frequently than any other regions except Western Europe and North America because they benefit from market mechanism, not from non-market, exclusive-group, privileges. As can be seen from Table 1, intra-regional trade within East Asia is always higher than intra-regional trade with Latin America, and the share of East Asian trade with NAFTA, EU and Oceania is also always higher than the share of Latin American trade with the same groups of countries. For example, in 1970, the intra-regional trade within East Asia was about 28.7 per cent of the total East Asian trade, compared to 11.2 per cent in Latin America. In 1998, these figures increased to 38.4 per cent for East Asia, but still only 31.4 per cent for Latin America. As for the share of East Asia in its trade with other regions, the share of East Asian trade with the EU was 3.3 per cent of the total EU trade in 1970, and increased to 11.0 per cent in 1998, whereas for Latin America, the share actually fell from 3.1 per cent in 1970 to 2.3 per cent in 1998. This has shown quite conclusively that the dynamism of trade both within East Asia itself and between East Asia and the rest of the world is reasonably high. Table 1 does not report the trade share beyond 1998 which was a start of crisis years for many East Asian countries. But it is quite likely the trade share will show even higher numbers because the devalued currencies would be a natural cause for increased trade between East Asia and other regions (especially exports from East Asia to the rest of the world). So, with countries or economies in the region showing their serious interest in pursuing greater trade and economic activities with one another, there is no reason to doubt that the overall trade within the region will increase, especially in the post-crisis period.

The same thing could be said about investment situations. One of the most important dynamic effects of the New FTAs in East Asia is the increase in foreign direct investments from outside as a result of larger markets, more efficient economic policy, and more coordinated trade policy. As can be seen from Table 2, even in the traditional net exporters

of capital like Japan, Hong Kong and Taiwan, in the last few years we have seen an increase in direct investment coming to these countries or economies from the outside. Only Korea which was a net capital exporter before the crisis has turned capital receiver after the crisis. But this will not be for long. Once the crisis is over, Korea should be able to assume the position of capital exporter through direct investment abroad again. During the crisis in 1997 and 1998, many crisis countries in East Asia namely Thailand, Indonesia and Philippines had shown a net increase in foreign direct investment. At least this has gone to show that these economies are still a good choice of investment. With extensive network of FTAs in the region, it is not unreasonable to see a further increase in this foreign direct investment coming into the region.

Before closing, we would like to refer to a study by Davis, McKibbin and Stoeckle (2000) again. This group of researchers had tried to estimate the size of investment and capital inflows as a result of the formation of AFTA-CER FTA. They believed that the trade liberalisation under AFTA-CER would cause the more efficient use of resources and improve access to markets. Hence, AFTA-CER would lift productivity and income in each member economy. The improved efficiency and any gains in the terms of trade would also lift the return on capital in each economy. They found that after forming the AFTA-CER FTA all member economies should experience a capital inflow under all scenarios. These positive capital inflows can be significant, and for AFTA the extra capital inflow from AFTA-CER liberalisation should amount to some US\$30.9 billion over the decade to 2010 (in discounted terms), and for the CER, the extra capital inflow should be about US\$7.7 billion. If the liberalisation is considered on the APEC-wide basis, the gains to both AFTA and CER would even be larger mainly because APEC represents a much more extensive liberalisation. As APEC liberalisation is on an open regionalism basis—that is, countries offer APEC tariff cuts on an MFN basis. The AFTA-CER FTA liberalises trade between members but not necessarily with third countries, but APEC is really a ‘series of simultaneous unilateral MFN liberalisations’ by a group of 21 economies.

Hence a much larger gains.<sup>19</sup>

## **6. Summary and Concluding Remarks: Future of FTAs as an Emerging Form of Regional Cooperation in East Asia**

In this paper we have attempted to show that there is no conclusive theoretical or empirical evidence that disparages the formation of a bilateral free trade agreement in today's world. The dynamic effects from such formation through greater economic efficiency, economy of scale, larger markets, incentives to reform, increase in investment from outside may be large enough to outweigh negative effects of possible trade diversions. If the preferential trade arrangement is comprehensive, with opportunities open for other members to join in, or without real intention to discriminate against outsiders, then the benefits would become even more real. Under the dual system of bilateral agreements and multilateral liberalisation through the APEC process, the chance of success is even greater because APEC system supports open regionalism where tariff cuts can also be offered to others unilaterally, and there are other trade and investment facilitation activities as well. Moreover, the basic principle of voluntarism and the spirit of cooperation among APEC members may indeed create a 'peer pressure' that works towards continued cohesiveness in the efforts to bring about the goals of free trade and investment in the Asia Pacific region within 20 years from now. It is not only possible to maintain such dual system of bilateralism and multilateralism within the context of APEC process, it may advisable to expand this system to other members who are still sceptical to the idea. The two largest economies in the world today, the US and Japan, are now behind this dual system.

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<sup>19</sup>See Davis, McKibbin, and Stoeckle (2000), p. 27. The above result should not be interpreted that since gains from APEC is larger, there should not be any attempt to form an FTA outside APEC. If the gains from an FTA is immediate while the longer-term liberalisation through APEC is continuing, there is no harm in doing the two things together.

So, we are certain to see the news about the formation of these New FTAs in East Asia or the Asia Pacific region in the years to come. It is possible, of course, that some countries or economies in the region may want to use this New FTA to cover some weaknesses in their own economies, to get into an agreement to hide something, to create what can be called an 'interest diversion' away from things that cannot be changed quickly like certain protections in some industries, sensitive sectors in others, be it agriculture or manufacturing, trade in goods or services, mutual recognition or dispute settlement, and so on. We must not allow such interest diversion to affect the way in which the New FTA should be formed. There should be no room for any country to make excuses for short-term benefits, but the New FTAs in East Asia should be the model on which others can follow, or a benchmark against which their success in regional cooperation could be measured.

Finally, an interesting observation can be made regarding the changing nature of APEC as a result of the wide-spread popularity of FTAs as an emerging form of regional cooperation. While the trade and investment liberalization aspect of APEC will continue to define a major objective of APEC through its Individual Action Plan (IAP) on the elimination of tariff and other non-tariff barriers, the emphasis on this aspect may be greatly supplemented by two other objectives of APEC, that is trade and investment facilitation, and economic and technical cooperation. Some scholars are concerned that the progress towards Bogor goals among APEC members are not as fast as it should be, but it is unrealistic to expect that the movement towards the Bogor goals will be a straight-line tariff reductions and other trade liberalization measures between now and the year 2010 or 2020. Such movement for some economies may be in steps, with jumps and kinks, and for some, the desired change may come much closer toward the deadline. That is why the trade and investment liberalization part can be assisted by the New FTAs. In the meantime, the trade and investment facilitation, and economic and technical cooperation parts will increase in their relevance and importance. This will enhance rather than jeopardize the prospects of APEC as still one of the most interesting and exciting regional groupings in the world today.



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**BOX 1: INSIDE APEC: A VIEW FROM AN OUTSIDER****By Medhi Krongkaew**

Most of us today have heard about APEC although not many would know what it is or how it works. So, through this short article, I would like to say something about what APEC is and how it works, from the point of an outsider who happens to get deeply involved with the APEC process at the moment.

I was appointed Chair of the Economic and Technical Cooperation Subcommittee of APEC by APEC ministers in Auckland 1999 for a 2-year term starting January 2000. Normally this job is for diplomat or bureaucrat in APEC member economies. But how could an outsider academic like me get in? The answer was a combination of an experiment of my government, Thailand, to introduce an outsider to work inside the APEC process, and the broadmindedness of the APEC senior officials and ministers to try this new experiment. This gives me a marvelous opportunity to peer inside the working mechanisms of APEC.

APEC was set up in 1989 as a loose organization in support of free and open trade and investment in the Asia Pacific region. This orientation towards free and open trade and investment was the first and foremost guiding principle for its advent and existence. But equally important is another guiding principle of voluntary commitments. What this means is that members will not be forced to accept any agreements or commitments against their wills. This makes APEC different from WTO in the sense that WTO is a rule-based organisation, where an agreement once accepted is binding to all members, whereas in APEC some members may open up for free trade and investment unilaterally first, with other

members to follow when they are ready. Within a stipulated time horizon, that is 2010 for developed members and 2020 for developing members, APEC members can trade and invest freely with one another. In this sense, APEC complements WTO and sets a moral standard, if not practical example, for others to follow.

To remain forward-looking in a loose organisation like this is not an easy matter. That is why APEC has set up working mechanisms or procedures that have become more or less institutionalised soon after the grouping came into being. Each year one member will take turn hosting the annual ‘Summit’ of APEC leaders. This is the highest form of decision making in APEC. Below that is the meeting of APEC ministers which also takes place once a year just before the Summit, so that what the leaders have decided to do have already been agreed upon by their responsible ministers. Little known to the general public, however, is the fact that it is the meetings of senior officials of APEC member economies that prepare all the agreements for their ministers and subsequently their leaders. These senior officials meet up to 4 times a year at regular interval, and go through all the motions of promoting free trade and investment in the region. It is through these senior official meetings that I get deeply involved.

From the beginning, a major task of senior officials of APEC is to find ways to promote trade and investment liberalisation and facilitation, or TILF as it is known

within APEC circle. A specific committee called Committee on Trade and Investment or CTI was set up to help these senior officials manage these TILF agendas which include such important activities as the announcement of individual action plans on reduction of tariffs and non-tariff barriers, and the collective action plans on such facilitation matters as standards and conform-

ance, customs procedures, mutual recognition agreements, dispute settlement procedures, and so on. In 1995, as a result of the APEC Summit in Osaka, other major activities within APEC were established. This is economic and technical cooperation or ECOTECH which has since then become the 'third pillar' of APEC (after trade and investment liberalisation and facilitation). In 1997, a special subcommittee was set up to, again, help senior officials manage their ECOTECH agendas, and it is called ECOTECH Subcommittee or ESC, for short. The reason this new organisation is a subcommittee rather than a committee like CTI is pure politics: some members were afraid that, by giving greater attention to ECOTECH, the focus on TILF might be blurred. So, a compromise was reached that this new group is to be set up as a subcommittee working directly under senior officials. In practice, however, this status of ESC is very much the same as CTI.

So, throughout the year, various organisations within APEC including my ESC are having a lot to do within their own roles and jurisdiction. The work program for my ESC for this year, for example, includes the revision of Part 2 of the Osaka Action Agenda which sets activities for various working groups within APEC to undertake to enhance economic and technical cooperation within APEC, the drafting of strategy for human capacity building, the preparation for the possible launch of the first ECOTECH individual action plan, and so on. The ways in which these APEC officials perceive and respond to APEC tasks make a good impression on an outsider like me, that they take APEC seriously and are willing to go through the difficult preparation for an eventual freer trade and investment in the region, while, at the same time, pursue the activities that promote economic and technical cooperation among members so that all can reach the goals of 2010 and 2020 faster. It is this feeling that makes my participation in the APEC process very refreshing and rewarding indeed.

**Box 2: The ANGKOR AGENDA—Report of the High-Level Task Force on the AFTA-CER Free Trade Area**

In an attempt to establish closer economic partnership between AFTA and CER, ASEAN and CER Ministers agreed to set up a High-Level Task Force to explore the feasibility of an AFTA-CER free trade area by 2010. This Task Force consisted of a group of former senior political figures, academic and senior officials of each of the ASEAN countries as well as Australia and New Zealand. The Third and final meeting of this Task Force was held in the exotic city of Siem Reap in Cambodia, the site of the Angkor Wat, in August 2000. Hence the catchy name of this report which was considered by AFTA-CER Ministers at the 5th annual consultations in Chiang Mai, Thailand in October 2000.

What is special about this report is that it has detailed the benefits and costs of the prospective AFTA-CER in a succinct yet systematic and comprehensive manner. At the end, the Task Force has set out a series of principles that can be used to guide the proposed formation of the AFTA-CER FTA, which indeed could also be the guiding principles of any New FTA. These principles are as follows:

- (a) The AFTA-CER FTA would represent a separate arrangement which would be comprehensive, covering all goods, services and investments, and would lead to the elimination of all forms of tariff and non-tariff barriers to trade in goods and services. AFTA and CER would maintain their respective identities;
- (b) The AFTA-CER FTA should be mutually beneficial to each group and to all member countries of the respective groups;
- (c) The pace of liberalisation within the AFTA-CER FTA should proceed faster than that agreed within APEC, i.e. 2010 for developed economies and 2020 for developing economies;

- (d) Subject to new arrangements that may be achieved within AFTA, the AFTA-CER FTA would not normally go beyond the pace of liberalisation which AFTA has already agreed for ASEAN members, ie. Elimination of tariffs for manufactured goods by 2010 for ASEAN-6 and 2015 for the four new members, with some flexibility. CER would progressively reduce tariffs for ASEAN from the conclusion of negotiations, reaching free trade by 2005;
- (e) The AFTA-CER FTA would be open to inclusion of new issues not currently covered by the AFTA or CER Agreements. In these cases, members of either group could decide to exclude themselves temporarily from the agreements;
- (f) The AFTA-CER FTA would comprise both developed and developing countries with different needs and levels of development. Hence, the structural adjustment and flexibility needed should also be recognised. The proposed FTA should provide development assistance in the form of capacity-building measures and technical assistance and the adoption of a longer time-frame for the newer members of ASEAN;
- (g) The AFTA-CER FTA would be open to accession by any other country or regional grouping that shares the common principles and underlying objectives of the FTA;
- (h) The provisions of CER and AFTA are different. Neither is an appropriate base model for an AFTA-CER FTA. However, elements of either CER or AFTA may be incorporated in the proposed AFTA-CER FTA agreement; and
- (i) AFTA and CER will continue to exist as functioning agreements.

**Source:** The ANGKOR AGENDA—Report of the High-Level Task Force on the AFTA-CER Free Trade Area, obtainable from the website of the Australian Department of Foreign Affairs and Trade

### **Box 3: A Template for Free Trade Agreement**

While an actual FTA for a pair of country can vary widely depending on the intention and design of trading partners, it is possible to draw or construct a template or model for free trade agreement between any trading partners. This is exactly what Keidanren, the Japanese Federation of Economic Organisations representing the private-sector businesses in Japan, has done for the Japanese government based on the North American Free Trade Agreement (NAFTA) and the EU-Mexico Free Trade Agreement. The skeleton or structure of this template is as follows:

#### **Preamble**

#### **I. Liberalisation of Intra-Regional Trade**

1. Elimination of tariffs on goods
2. Non-tariff measures
  - National treatment
  - Prohibition of quantitative restrictions
  - Prohibition of export subsidies
  - Customs operation
3. Liberalisation of trade in services
  - Scope and coverage
  - National treatment and market access
  - Liberalisation schedule

#### **II. Rules on Intra-Regional Trade**

1. Rules of origin
2. Anti-dumping
3. Safeguards
  - Intra-regional safeguards
  - Global safeguards



### III. Investment Protection and Liberalisation

- Definition of investors and investment
- Scope and coverage
- Treatment of investors and investment
- Transparency
- Prohibition of performance requirements
- Temporary entry, stays and employment of investors and key personnel
- Prohibition of nationality requirements
- Expropriation and compensation
- Dispute settlement
- Exceptions

### IV. Rules for Trade and Investment Facilitation

1. Harmonisation and mutual recognition of standards and conformity assessment systems, etc.
2. Intellectual property rights
3. Government procurement
4. Facilitation of the movement of business persons
5. Competition policy
6. Electronic commerce

### V. Dispute Settlement

- Definition of ‘dispute’
- Dispute settlement procedures
- Relation with WTO dispute settlement procedures

**Source:** Keidanren, “A Model Free Trade Agreement”, Urgent Call for Active Promotion of Free Trade Agreement—Toward a New Dimension in Trade Policy, 18 July 2000.

**Table 1:** Intra and Inter-Regional Trade Share, by Region (%)

Exporting region	Importing region	1970	1975	1980	1985	1990	1995	1996	1997	1998
NAFTA	NAFTA	36.0	34.6	33.6	43.9	41.4	46.2	47.6	49.1	51.0
	Latin America	8.1	8.9	8.6	5.6	4.8	6.7	6.7	7.1	7.3
	East Asia	17.6	15.2	16.8	14.7	18.7	20.2	20.0	18.1	15.2
	EU	23.3	19.5	21.6	17.0	19.6	16.2	15.4	15.4	16.4
Latin America	CER	2.2	1.7	1.8	2.1	1.9	1.6	1.6	1.5	1.5
	NAFTA	32.2	33.8	28.7	33.2	35.0	27.0	28.9	29.2	28.3
	Latin America	11.2	11.9	16.9	11.9	13.7	26.7	27.4	28.4	31.4
	East Asia	5.4	4.8	6.3	6.5	8.8	11.5	10.9	9.9	8.3
East Asia	EU	33.2	26.8	21.4	25.7	24.1	23.1	21.1	19.3	19.4
	CER	0.1	0.1	0.2	0.5	0.4	0.4	0.3	0.3	0.2
	NAFTA	32.5	23.5	23.5	33.4	28.0	24.0	23.3	23.8	26.3
	Latin America	3.7	6.0	4.7	2.8	1.8	2.6	2.5	2.8	2.7
EU	East Asia	28.7	28.6	32.7	31.8	35.7	39.0	43.5	43.4	38.4
	EU	13.5	13.4	14.4	11.4	16.2	13.7	12.1	13.5	14.0
	CER	3.4	3.4	2.8	7.0	2.2	1.6	1.8	2.0	2.7
	NAFTA	9.7	6.9	6.7	11.2	8.2	7.7	7.9	8.6	9.6
CER	Latin America	3.1	3.5	3.3	1.8	1.2	2.3	2.3	2.2	2.3
	East Asia	3.3	2.9	3.1	4.1	5.1	7.2	7.3	7.0	11.0
	EU	48.7	48.4	50.9	50.3	55.0	62.4	61.4	55.8	56.1
	CER	1.6	1.2	2.8	1.0	0.8	0.8	0.8	0.8	0.8
	NAFTA	16.9	13.4	14.4	12.8	13.5	8.9	8.8	9.7	11.8
	Latin America	0.7	1.9	1.2	1.0	0.9	1.3	1.7	1.4	1.6
	East Asia	32.6	39.1	38.5	40.8	44.3	50.9	45.6	48.2	43.1
	EU	24.7	17.3	14.1	13.1	12.1	11.7	11.5	10.2	13.2
	CER	6.1	6.1	6.4	7.0	7.6	9.9	9.7	9.5	8.3

**Note:** NAFTA (US, Canada, Mexico), Latin America (excludes Mexico)

East Asia (Japan, China, Hong Kong, Indonesia, Korea, Malaysia, Philippines, Singapore, Thailand, excluding Taiwan)

CER (Australia, New Zealand)

**Source:** Adapted from Hosono and Nishijima (2001), based on IMF, Direction of Trade.

**Table 2:** Outward and Inward Direct Investment of Selected Countries in East Asia (US\$ million)

Country	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Japan										
- Outward	50,497	31,620	17,390	13,834	18,089	22,508	23,442	26,059	24,625	22,267
- Inward	1,777	1,286	2,760	119	912	39	200	3,200	3,268	12,308
- Net Flow	-48,720	-30,334	-14,630	-13,715	-17,177	-22,469	-23,242	-22,859	-21,357	-9,959
China										
- Outward	830	913	4,000	4,400	2,000	2,000	2,114	2,563	2,634	1,775
- Inward	3,487	4,366	11,156	27,515	33,787	35,849	40,180	44,236	43,751	38,753
- Net Flow	2,657	3,453	7,156	23,115	31,787	33,849	38,066	41,673	41,117	36,978
Hong Kong										
- Outward									16,973	19,895
- Inward									14,776	23,068
- Net Flow									-2,197	3,173
Korea										
- Outward	1,052	1,489	1,162	1,340	2,461	3,552	4,671	4,449	4,740	4,198
- Inward	788	1,180	728	589	810	1,776	2,326	2,844	5,412	9,333
- Net Flow	-264	-309	-434	-751	-1,651	-1,776	-2,345	-1,605	672	5,135
Taiwan										
- Outward	5,249	2,055	1,967	2,611	2,640	2,983	3,843	5,243	3,836	4,420
- Inward	1,330	1,271	879	917	1,375	1,559	1,864	2,248	222	2,926
- Net Flow	-3,919	-784	-1,088	-1,694	-1,265	-1,424	-1,979	-2,995	-3,614	-1,494
Indonesia										
- Outward	0	0	0	356	609	603	600	178	44	72
- Inward	1,093	1,482	1,777	2,004	2,109	4,346	6,194	4,677	356	2,745
- Net Flow	1,093	1,482	1,777	1,648	1,500	3,743	5,594	4,499	312	2,673
Malaysia										
- Outward	0	0	0	0	0	0	0	0	0	0
- Inward	2,332	3,998	5,183	5,006	4,342	4,178	5,078	5,137	2,163	1,553
- Net Flow	2,332	3,998	5,183	5,006	4,342	4,178	5,078	5,137	2,163	1,553
Philippines										
- Outward	0	0	0	374	302	399	182	136	160	59
- Inward	530	544	228	1,238	1,591	1,478	1,517	1,222	2,287	573
- Net Flow	530	544	228	864	1,289	1,079	1,335	1,086	2,127	514
Singapore										
- Outward	2,034	526	1,317	2,152	4,577	6,281	6,935	8,858	1,525	3,943
- Inward	5,575	4,887	2,204	4,686	8,550	7,206	8,984	8,085	5,493	6,984
- Net Flow	3,541	4,361	887	2,534	3,973	925	2,049	-773	3,968	3,041
Thailand										
- Outward	140	167	147	233	493	886	931	580	130	346
- Inward	2,444	2,014	2,113	1,804	1,366	2,068	2,336	3,895	7,315	6,213
- Net Flow	2,304	1,847	1,966	1,571	873	1,182	1,405	3,315	7,185	5,867
Vietnam										
- Outward										
- Inward										
- Net Flow	120	220	260	300	1,048	1,400	1,803	2,587	1,845	1,484

**Source:** The International Centre for the Study of East Asian Development (ICSEAD), *East Asian Economic Perspectives*, vol. 12, Special Issue, February 2001.



## **14. NEW INITIATIVES FOR COMMUNITY BUILDING IN PECC: WHAT PECC CAN LEARN FROM APEC\***

**By Medhi Krongkaew\*\***

### **1. Introduction**

The meeting of the Standing Committee of the Pacific Economic Cooperation Council (PECC) in Kyoto, Japan in April 2001 had approved the reorganisation of PECC that not only would change the ways in which PECC works, but also would change the nature and role of PECC in its economic cooperation in the Pacific region. The main work programs of PECC would now be classified under three work areas or forums namely the Trade Forum, Finance Forum, and Community Building Forum. This change came as a result of a recommendation of an ad hoc Vision Group whose members were appointed by the PECC Standing Committee a year earlier to study the possibility of restructuring of PECC that would bring about the 'rejuvenation' of PECC. The suggested model of PECC restructuring was finally proposed in the Vision Group's Report, 'Implementing the PECC Vision' that came out at the end of July 2001.

While the new Trade and Finance Forums more or less correspond to the established activities in the old Trade Policy Forum (TPF) and the Financial Markets and Development (FDM) Project Group, it is unclear whether all other activities not belonging to, or not classified under,

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\* Revised version of the paper presented at the 16<sup>th</sup> Pacific Economic Community Seminar on 'New Initiatives for Community Building in the 21<sup>st</sup> Century', organised by the Chinese Taipei Committee of the Pacific Economic Cooperation Council (CTPECC) in Taipei, December 7, 2001.

\*\* Professor of Economics, Faculty of Economics, Thammasat University, Bangkok, Thailand; and Coordinator, Community Building Forum of the PECC. There is an important caveat for this paper. It is written as an experimental paper on occasion of assuming the coordinatorship of this new Community Building Forum in PECC rather than a definitive piece on the subject. I hope to be able to improve on it once I have a chance to present it and receive feedback from interested readers.

the two established trade and finance areas would fall under the new Community Building Forum. Some previous activities that clearly exhibit cross-cutting nature such as the Pacific Economic Outlook (PEO)- Forecast Project Group, or the Pacific Food System in the Food and Agricultural Forum may be difficult to be classified under any particular forum, but from the knowledge of their origins, we could conveniently put them in the Trade Forum box. It is those non-trade, non-finance, activities that are having difficulties being put in any particular box. Hence the convenience of the Community Building Forum box.

But it would be a mistake to look at the Community Building Forum as the ‘wastebasket’ of all other, non-trade, non-finance, activities. Indeed, members of the PECC Coordinating Group in their meeting in Hong Kong in November 2001, refused to accept that characterisation of this new Forum. What, then, should be the characteristics of PECC activities that can be classified under this new Forum? Would these activities under this new Forum be less important than those under trade and finance forums? How could activities under this new Community Building Forum turn into somethings that actually redefine the future role and function of PECC? Considering the fact that there exists a great deal of similarities between the ECOTECH agenda and prospective activities under this new Community Building Forum in PECC, what lessons can be learned from the ECOTECH experience in APEC for use in PECC? These are some of the questions that we will discuss and address in this short paper.

## **2. The Whats and Whys of Community Building**

The Pacific Economic Cooperation Council or PECC came into being in Canberra in September 1980 at the suggestion of then Japanese Prime Minister Ohira Masayoshi and then Australian Prime Minister Malcolm Fraser. Their goal was to identify and coordinate the components of Pacific economic cooperation, and to establish pathways

to enhance regional cooperation.<sup>1</sup> Nine years later, in the same city, Canberra, Australia, another regional economic cooperation grouping, the Asia Pacific Economic Cooperation or APEC was established with very much the same purpose. Indeed, it is often claimed that PECC had fathered APEC. From then on these two organisations or forums exist side by side, working together on various policy issues, especially on trade, finance and corporate governance.

But why is there a need to streamline the functions or activities of PECC into three forums as stated above? And what are to be expected out of work plans or work programs of these three forums? While it is reasonable to think that the PECC Vision Group could have been influenced by the resurgence of the interest in the role of ECOTECH in APEC in the last few years, the decision to recommend the 3-forum restructuring of PECC was probably influenced by the wish of this Vision Group to see a more focused direction of the PECC in the future, that PECC reorganises itself to be more relevant and useful to APEC rather than to follow the trend or pattern of APEC.<sup>2</sup> However, the result or outcome could be the same, that is to say, the work of the Community Building Forum in PECC could make PECC stronger, as the new ECOTECH role is making APEC stronger.

In that case, what are, or should be, the scope and functions of the new Community Building Forum in PECC then? At present, the work on trade policy in PECC remains one of the strongest, if not the strongest, activities in PECC. So, the continuation of these trade and investment-related research interests in the new Trade Forum is justified. The financial management issues have become very important in the aftermath of the East Asian financial crisis. Therefore, it is also very important that issues concerning financial policy and international financial architecture become the core activities of the new Finance Forum. Currently in PECC, there are also other activities that can be described as cross-cutting. These

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<sup>1</sup> The Pacific Economic Cooperation Council Charter, Appendix 1.

<sup>2</sup> At least this is the view of Dr. Hadi Soesastro, a member of the Vision Group, in a personal interview.

include the Forecast Project Group and the Structure Project Group of the Pacific Economic Outlook (PEO). These two groups could be classified under Trade and Finance Forums, respectively. That could leave the remainder of other PECC activities under the Community Building Forum. This is not necessarily or entirely inappropriate, but we should be more clear how to define community building.

In a typical case of human settlement, a community would consist of a number of households agreeing to live together under some common rules that stipulate their rights and duties among themselves. But a community may want to do more than just allowing member households to live peacefully with one another: community leader or leaders may want member households to do things together for the joint benefits of households on that community. The act of ‘doing things together’ requires that members possess similar qualities or capabilities that make the joint community effort possible. Imagine a case whereby a village community would like to set up security guards around the perimeter of that village, and every household member will have to contribute either their own labour to work as security guard or their money to hire an outside security guard. A family whose members are so ill, or so poor, would not be able to participate in this community building effort. To be successful, community building requires or presupposes capacity building. In other words, a successful community building requires members who are able and ready to take part in joint community effort. The purpose or objective of community building requires enabling or empowering measures to members of that community.

Under the above understanding, it is obvious that to forge community building in a setting like PECC or APEC, members of PECC or APEC must possess the same or similar levels of economic development that will enable them to trade and invest freely with one another. This is not to say that all members must attain exactly the same level of economic development and status, but they must all be able to put in place basic conditions that will enable trade among members to take place and go forward. And these basic conditions may include, for



example, the belief in the same economic principles that govern economic behaviour and pattern of economic activities of the people in the same community, the willingness to go through adjustments and reforms that will bring members closer together in terms of economic preparation, and the willingness and goodwill to help one another for common prosperity in the future. To achieve these basic conditions does take time, and that is why APEC allows some of its less developed members until the year 2020, or more than 25 years from the time APEC members had reached their agreement in Bogor, Indonesia in 1994, to be able to trade and invest freely with one another. It is this aspect of preparation for community building that we have in mind.

### **3. Community Building in PECC vs. ECOTECH in APEC**

Up until the decision by the PECC Standing Committee to accept the Vision Group's recommendation to reorganise PECC's structure of activities, PECC had had differing records and experience of supporting various cooperative activities. As mentioned earlier, trade and finance had a consistent record of being at the forefronts of PECC interests in the past decade or so. Interests in other economic cooperation issues within PECC could go up and down depending on initiatives and efforts of specific coordinators or national committees. For examples, until 2000 the Human Resource Development Task Force under the leadership of its International Coordinator, Dr. Paul T. Mu of Chinese Taipei, was very active in promoting human resource development activities within PECC. With his departure from his coordinating task in this Task Force this year, there were some concerns that this Task Force would not be as active as before. The same concerns may be expressed about the changes in many other task forces and projects in PECC. However, on this community building issues in PECC, we have not reached the final conclusion yet; the future direction, shape and form, of this new forum are still being decided. It is possible that after much debate and deliberation, not much change has happened to the existing PECC activities. Perhaps we

could learn from APEC how its ECOTECH activities have become very important in the past few years, and have succeeded in changing the nature and focus of APEC.

The stories about the creation of ECOTECH in APEC and its early development within the APEC process can be found in various sources.<sup>3</sup> Suffice it to say that ECOTECH has gone through several periods of painful adjustments and reorganisations before it is now recognised as the equally important element of APEC alongside the TILF objectives. Indeed, the current description of ECOTECH in APEC is that of the second wheel of the APEC bicycle, the one that drives this bicycle forward.<sup>4</sup> What was at issue here is the basic role of ECOTECH in APEC: Should ECOTECH exist primarily to serve the TILF objectives, or to pursue its own objectives? There is no denial that APEC is basically for trade and investment liberalisation, and what makes this regional cooperation unique are its unique adherence to the ‘open regionalism’ principle of free trade based on voluntarism, unilateralism, and non-reciprocity.<sup>5</sup> For that reason, some APEC officials were afraid that supporting ECOTECH could dilute the attention given to TILF. But holders of such view must be shortsighted because free trade cannot profitably happen to both sides of trading partners until both sides have become more equal in their economic development. And ECOTECH is one way to help free trade happen more quickly by enabling and empowering the less developed trading nations to be able and ready. But ECOTECH can also do more. In the Terms of Reference for the SOM Sub-committee for Economic and Technical Cooperation or ESC, the APEC ECOTECH goals are defined as follows:

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<sup>3</sup> See, for example, Elek and Soesastro (1999), Elek (2000), Medhi (2000).

<sup>4</sup> See Medhi (2001).

<sup>5</sup> For details of this APEC Principles, see Medhi (1997).

- To attain sustainable growth and equitable development in the Asia Pacific region;
- To reduce economic disparities among APEC economies;
- To improve the economic and social well-being of the people; and
- To deepen the spirit of community in the Asia Pacific

From the above, it can be seen that ECOTECH has a life of its own too, and does not exist simply to serve TILF only. In fact, some are of opinion that, because APEC is a voluntary organisation and collective agreement is reached only on consensus, no one can force any member to open up (for free trade and investment) against its will. That has given ECOTECH a share of the center of attention. How this is so? At times, there have been some concerns that some APEC members do not reduce their tariffs fast enough, or do it in a linear fashion, that is to say, constantly reducing tariff until it reaches zero in the year 2010 or 2020 as the case may be. These concerns are overstated as it is possible that APEC members will reduce their necessary tariffs to the required levels nearer to their deadlines. It is possible that between now and the year 2020, major activities in APEC could be ECOTECH activities whereby members will be busy increasing their own capabilities and getting ready for free (or freer) trade.

What has ECOTECH accomplished in the past two years that we can use to an example for PECC to follow? These are some of the ‘accomplishments’ of ECOTECH that have given rise to its respected status today.

### **(1) General Approach of ECOTECH**

The Terms of Reference of the ESC says simply that the role of the ESC will be “to assist the SOM in coordinating and managing APEC’s ECOTECH agenda, and to identify value-added initiatives for cooperative action”. Of course it does not say how these tasks should be done. In the past few years of its life, the ESC and its ECOTECH

agenda has been faced with several problems which still need serious attention. These problems include lack of resources for ECOTECH projects, lack of authority of the ESC, lack of technical capability of the personnel of the APEC Secretariat, the problem of ECOTECH activities becoming too diverse, and lack of cooperation and support from within and outside the APEC process. In the year 2000, the ESC proposed to carry out its duties in three specific areas. The first area is the coordination of ECOTECH activities which include the assessment and evaluation of completed ECOTECH projects. It was here that the ESC had proposed the engagement of outside experts to carry out this assessment and evaluation. The second area is the dissemination of the results or outcomes of APEC activities to various groups of the general public. And the third area is the invitation of other organisations or institutions outside the APEC process to join in with the APEC activities. These three-pronged approach could be a good example for the work of PECC.

## **(2) The Updating of Part II of the Osaka Action Agenda**

After completing the review of the work done on Part II of the Osaka Action Agenda in 2000, the APEC Ministers had tasked the ESC to develop further the Joint Activities/Dialogue sections of the OAA guidelines. This task became known as the updating of Part II of the Osaka Action Agenda where Lead Shepherds of all existing and new Working Groups were asked to update their work programs and activities based on the original Common Policy Concepts (CPC) contained in the original OAA Part II. Despite the extensive nature of this task, the ESC was able to cooperate with all APEC working groups to finish the updating on time. One of the reasons for its success was the ESC's ability of ask economies to volunteer to liaise with selected working groups to check the progress their work as well as to provide whatever assistance or information needed for the successful completion of the task. The lesson for PECC is that it has to keep up with the

### **(3) The Introduction of the ECOTECH Action Plan (EAP)**

One indicator that is used to show the seriousness of intention to liberalise trade and investment among APEC members is the so-called Individual Action Plan (IAP) which each member submits to the Ministers every year. Until 2001, there was no similar effort to show the seriousness of APEC members to voluntarily promote or improve their ECOTECH activities. In November 2000, however, APEC Ministers called for a more focused and intensified ECOTECH action agenda, and instructed officials to consider the possibility of establishing individual action plans on ECOTECH. This issue was hotly debated in 2000 in China under initial scepticism of several ESC members. Eventually, however, cooperative spirit among members prevailed, and a compromise was reached for the introduction of this 'ECOTECH Action Plan (EAP)' by members on a particular theme of human resources development on a voluntary basis for an experimental period of two years. By the time of the APEC Ministerial Meeting in Shanghai in October 2001, 16 economies had submitted their EAPs to the Ministers. These EAPs represent past, present and future commitments of members on the issues of human resources development and human capacity building. These plans are certain to provide best practices for other members to replicate and emulate as a means to improve human capacity of the people in the region. This is something PECC could also do.

### **(4) The Progress of Human Capacity Building Strategy Report**

The Ministerial Meeting in Brunei in 2000 also instructed that a Human Capacity Building Coordinating Group (HCBCG) be created to explore the possibility of drafting a strategy report on human capacity building for APEC on an annual basis. This was part of the continuation of the initiatives conceived by Brunei to increase human capacity and promote human resources development in the APEC region. The ESC was asked to be responsible for this coordination duty. Due to a very complex nature of the assignment, the ESC was unable to finish this draft report by the time the APEC Ministers met in Shanghai in October 2001.

But much progress has been made, and it is expected that the final report could be submitted to the SOM and Ministers by the end of 2002.

#### **4. What Need to Be Done vs. What Could Be Done?**

From the above, it may be seen that the ESC has achieved a great deal on its ECOTECH activities within the last couple of years. These achievements in ECOTECH have gone a long way to enhance the status of ECOTECH in APEC. For Community Building Forum to do the same could go a long way to enhance its status and position in PECC too. Both in terms of substance and format, the Community Building Forum could adopt the APEC principles and the achievements of ECOTECH in APEC to deal with its future direction as follows:

- (a) Whatever project or program undertaken by any task force, committee, or group, the efficiency criterion must always apply. This is to say that the decision to support any project or program must be based on the efficient outcome of that project or program. If necessary, outside experts may be sought to evaluate the efficiency of the outcome of the project to make certain that the limited PECC fund is put to good use. This efficiency criterion is applicable to activities in the Community Building Forum as well as other Forums. However, while outside experts may be needed to assess or evaluate PECC work, experts from PECC could help assess or evaluate work of other organisations such as APEC.
- (b) Partly to advertise the work of PECC to gain continued support from the government, the private sector, the academic circle, and the civil society, and partly to always keep in mind the efficiency of the outcome, communications with these stakeholders must be constantly maintained. Public outreach program or activities must be a main part of the project.

- (c) As long as the above two conditions are kept, they act as a regulating mechanism to guarantee that only good project get approved. Therefore, there is no need to impose restricting rules against initiatives that may arise from Task Forces, national committees, or other groups in the PECC framework. This freedom to initiate activities or projects in PECC should work to enhance the benefits of diversities in the PECC system. But in the meantime, more focused joint activities should also be considered to help fulfill the objectives of PECC quickly.
- (d) The two, more focused, joint activities that most PECC members appeared to agree to support are human resources development and tourism. On human resources development or human capacity building, three goals or objectives could be conceived: to increase technical assistance in terms of training, workshop, expert visits, and publication; to create and promote best practices on various activities; and to facilitate or provide financial assistance either in grants or loans or both. As for tourism, eco-tourism has been singled out as the most appropriate candidate.
- (e) In order to avoid duplication with the same activities in other regional groupings or cooperation, the Community Building Forum should encourage all forums and task forces in PECC to work with other similar groupings if possible. One good case in point: APEC, PECC and ABAC all have working groups, task forces, or ad hoc groups on human resources development or human capacity building. They should try to organise their meeting so that all three could join in one meeting, or at least, three overlapping meetings so that meeting costs will be saved, and the outcomes more efficient and productive.
- (f) The internal working mechanisms of PECC should reflect efficiency in the outcome of the work of each forum. Most members of the Community Building Forum have agreed that the International

Advisory Group (IAG) attached to the Forum should act as the mentor of the Coordinator of the Forum, helping him set the direction for future activities of the Forum, assess and approve (or reject) projects, help get funding from various sources, act on behalf of the Forum for further improvement of its work and status, and so on. Once this can be done, other IAGs could follow suit.

- (g) The reorganisation of PECC has given greater responsibility of work to the three coordinators of the three forums, while freeing the Coordinating Group Chair to do more strategic planning and broad coordinating work. Currently, the Coordinating Group Chair seems to act as a coordinator of a 'cross-cutting' forum. This could be interpreted as running counter to the PECC Charter which does not encourage the Coordinator Group Chair to do so. It is probably more appropriate to reallocate existing task forces or activities to either Trade, Finance, or Community Building Forum where the nature of the work or activities closely follow the expertise of that forum. The CG Chair can always help to mediate any conflicts that may arise from the consideration within each forum. The existing and proposed reallocation of task forces and activities by the new three forums is shown in Table 1.
- (h) The PECC International Secretariat should be strengthened. At least one professional researcher who can work on the same level as members of the IAG should be employed to provide leadership in certain phrase of PECC work. There should also be closer working relationship between personnel of the APEC Secretariat and PECC International Secretariat.



## 5. Summary and Concluding Remark

In this paper, I have attempted to argue that the recent decision by the PECC Standing Committee to reorganise the work programs of PECC into three groups or Forums is in good keeping with the change in economic environment in this age of globalisation. As APEC which is a much larger and more influential regional cooperation has gone through some adjustments, especially in the structure and modality of its ECOTECH agenda, to make it more effective as a regional cooperation grouping in support of free trade and investment in the Asia Pacific region, we could use lessons learned from the APEC experience to guide the change in PECC. I have mentioned the examples of better coordination, better dissemination, and better participation in ECOTECH activities as a guideline for doing the same in the Community Building Forum in PECC. In following the above adjustments, we could continue to support individual initiatives from whatever Task Force, Committee, or group that might come up with community building activities. This is in order to maintain and promote the diversity of interest in PECC. But at the same time, the Community Building Forum should select some joint activities that should work towards increasing the capacity of PECC members to grow and trade better with one another, leading to a better community in the Pacific region. It appears that members of the Community Building Forum were interested in two particular activities, human resources development and tourism. These two activities are also those that have been pursued in APEC and its supporting organisation like ABAC. PECC could revitalise or reinvigorate the two Task Forces to do this work, namely the Human Resources Development Task Force and the Tourism Task Force. It is hope that by concentrating on this two-pronged approach, PECC will become stronger and more relevant.

As a concluding remark, I would like to make one reference to the role of PECC as one of the three official observers in APEC meetings, both at the SOM and MM. The observer status that APEC gives to PECC should not be interpreted so strictly, that the PECC observer

cannot make interventions or gives some opinions. Since the decision within APEC is done on consensus (there is no voting), the role of PECC could be important as influence giver. Therefore, I would suggest that PECC observer play more active role in the SOM or MM discussions. Take the SOM meeting, for instance. Instead of having to sit quietly throughout normally two-day meeting with only a chance to say something at the very end when the meeting is just about to break up, PECC should ask for the permission from SOM Chair to allow PECC observer to speak whenever it is appropriate to do so. This will go to show that PECC is interested in the APEC SOM discussion and not merely an uninterested observer.

More importantly, PECC should not be understood to be an uninterested partner of APEC in a larger context, that is outside the meeting room. While there are movements within the APEC process itself, particularly in the ESC, to push for greater contacts of official APEC process with outside organisations, of which PECC is one, PECC should not wait to be approached by the APEC mechanisms but should actively seek those contacts whenever possible. All Forums and Task Forces should be told to do this, and perhaps the Community Building Forum should take this as a special function to create opportunities for greater contact with APEC. By fulfilling the reforms and restructuring, and seeking the new initiatives above, it is possible that PECC will become more important, not just to APEC, but also as a more progressive regional economic cooperation or regional grouping in its own right.

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**Table 1:** Reallocation of Existing Task Forces, Activities to the 3 New Forums

	Existing Taskforces, Forums, Activities	Current Arrangement	Possible New Affiliation
1	Trade Policy Forum	Trade Forum	Trade Forum
2	Pacific Economic Outlook (PEO)- Forecast Project Group	CG Chair (Cross-cutting issue)	Trade Forum
3	Pacific Economic Outlook (PEO)- Structural Project Group	CG Chair (Cross-cutting issue)	Finance Forum
4	Financial Markets and Development (FMD) Project Group	Finance	Finance Forum
5	Peer Assistance and Review	Finance	Finance Forum
6	Sustainable Cities Task Force		Community Building Forum
7	Pacific Island Nations Task Force		Community Building Forum
8	Science and Technology Task Force		Community Building Forum
9	Tourism Task Force		Community Building Forum
10	Transportation Task Force		Community Building Forum
11	Human Resource Development (HRD) Task Force		Community Building Forum
12	Fisheries Task Force		Trade
13	Energy Forum		Trade
14	Food and Agriculture Forum		Trade
15	Minerals Forum		Community Building Forum
16	Small and Medium Enterprise (SME) Network		Community Building Forum

# **15. ASEAN, JAPAN, AND THE PRC: EMERGING ECONOMIC RELATIONS AND PIVOTAL ROLES FOR TAIWAN\***

**By Medhi Krongkaew\*\***

## **1. Introduction**

Even without September 11, the East Asian economies were already in a state of flux in 2001. After almost four years of economic hardship as a result of a financial turned economic crisis that started in Thailand in 1997, most affected economies in East Asia notably Indonesia, Thailand and Korea are still trying to get back to their economic life that existed in the pre-crisis period. Some were more successful than the others (in their economic recovery), but overall these East Asian countries have learned important lessons that should help them avoid the same mistakes again in the future.

In the meantime, the events in the past four years have also redefined economic relationships among countries in East Asia. Japan was instrumental in organising various financial assistance to these troubled countries, but itself is still mired in economic stagnation that has been going on for more than ten years. The People's Republic of China is probably the only economy in East Asia that has totally escaped the negative impact of the East Asian economic crisis, and indeed the only economy that has profited from it by being the only bastion of growth

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\* Paper presented at the John Fei Memorial Lecture Series organised by the John Fei Memorial Foundation, in Taipei, April 11, 2002. Earlier version of this paper was presented at the meeting organised by the Japanese Federation of Economic Organisations (Keidanren) in Tokyo, January 23, 2002.

\*\* Professor of Economics, Faculty of Economics, Thammasat University, Bangkok, Thailand. I would like to thank the John Fei Memorial Foundation, especially Dr. Chu Yun-Peng, a Foundation Board member, in inviting me to give this lecture. As a research assistant to Dr. John Fei while he conducted his research on Open Dualistic Economy in Thailand during 1968-69, this is my humble tribute to the knowledge that I have acquired from Professor Fei.

in the East Asian region during the past four years. During the same four years, however, all countries in South-East Asia have managed to bind themselves together in a new regional grouping. The new ASEAN which now consists of all 10 nations in South-East Asia promises to be an economic force to be reckoned with in the future. With the economic troubles in Japan which has forced it to play less role of the only 'Western' economic power of the East and more role as a more participatory economic partner of the Eastern economies, the real rise of economic power of the PRC, and the long-established potential of ASEAN as a source of economic power in the East, a new economic relationship has emerged. It is this new 'Triangular Economic Relations' that poses a challenge to our understanding and appreciation of the new economic paradigm in the East Asian region.

By Triangular Economic Relations is meant special relationship between any pair of countries with a possibility of involvement or intervention from the third country or party. These three countries or parties must possess equal strength or power, real or perceived, and this involvement or intervention from this third party is often conditioned by the need or desire to establish partnership or alliance with one or both of the previous two parties to enhance the eventual triangular relationship, or to upset the prior bilateral relationship for a certain purpose or objective. The resulting triangular relationship becomes complicated because each of the three members can equally effect changes in the consequences or environment surrounding the three members. Each member will be able to establish its own strategies to deal with each of the other two members, or the strategies of two members against the third member, with different outcomes or results. To understand the true nature of this Triangular Relations is to be able to predict the outcome of future events. The most celebrated case of Triangular Relations in human history is probably the relationship among the three states in China during the Third Century A. D. which we learn from the Romance of the Three Kingdoms. Other cases of Triangular Relations may include the involvement of Europe during the Cold War between the U.S. and former Soviet Union. Perhaps another

interesting Triangular Relations that is of interest to us in a more recent time is the relationship between the US and Japan in their economic policies toward East Asia in the 80s and 90s. The Triangular Economic Relations that I am talking about in this paper is the relationship between Japan, the PRC, and ASEAN.

In this short paper, I will argue that each of the three parties, Japan, the PRC, and ASEAN, will be in a position to benefit from partnership or alliance from any of the two pairs. For example, in November last year, the PRC proposed China-ASEAN Free Trade Agreements or FTA, which, once materialised, could act as an economic bloc against Japan or enhance the position of some countries in ASEAN, say, Thailand and China in their bargaining power regarding agricultural policy of Japan. It does not matter whether or not the prospect of such scenario can be conceived as a threat to Japan, Japan could not just sit still and let this event pass it by. That is why Japan quickly came up with its own Japan-ASEAN FTA in December 2001 despite the fact that a month earlier, it just gave a cold shoulder to ASEAN overture for an idea at the ASEAN Summit in Brunei. It is possible that the greatest good could happen to all three players if they can strike an effective partnership or alliance with one another, but such partnership may not be forthcoming or may be prevented by certain factors or considerations. In a familiar jargon of game theory, before Nash Equilibrium is reached where the greatest good or the greatest welfare of the whole East Asian community is achieved, one country may form a collusion or coalition with the second country, and through non-cooperative strategies, will be able to extract rent from the third. Therefore, the Triangular Relations in the beginning may bring about interesting developments that challenge the understanding the true situations which can have direct or indirect bearings upon future outcomes. My hypothesis here is that, to be able to forge effective partnership with any of the two members, each member should possess equal strength. Each member will need to get rid of its own weaknesses, solve its own problems in order to improve its own position, and constantly devise ways to move ahead of competitors or opponents. While

this process is going on, the third member or party will not just sit still, but will try to improve itself and try to penetrate the established partnership or alliance in order to avoid being exploited or to share increasing benefits. Eventually, Nash Equilibrium will be reached which gives the most efficient or best state of affairs. At the end, all may gain because the Triangular Relations will keep all partners efficient and alert despite the initial period of possible conflict and competition.

But then outside this Triangular Relations, there are other actors or players in East Asia who can exert their own influence to the ways this triangular game is played. Taiwan is one such player in East Asia, Korea and Australia and New Zealand or the CER countries are another. This could complicate the picture even more, but let us start with the first precondition for an effective Triangular Relations, that is how to get rid of one's own weaknesses to become a good partner in a Triangular Relations.

## **2. How to Get Rid of Weaknesses to Be a Good Partner?**

As mentioned earlier, most countries in East Asia either then, that is 5 years ago, or now, have suffered from some effects of economic slowdown. To form an effective economic partnership, the causes of this economic slowdown must be corrected. Let us start with Japan first. We have seen Japan being diagnosed with all kinds of economic illnesses at present: Lack of growth, price deflation, unemployment, non-performing loans in banking as well as other real sectors, and so on. It would be easy if there is a single cause of these economic problems, but even among Japanese experts themselves, they cannot decide among themselves what exactly are the causes of the present Japanese economic troubles. Two months ago I had a chance to interview many Japanese economic experts in Tokyo, and I can say that the views were all different. One view would say that Japanese economic problems is on 20-30 per cent structural but 70-80 per cent balance sheet problem. So, to put too much emphasis on structural issues would be either wrong or inefficient use of time and



efforts. The second scholar said that the problem was about half-half, that is 50 per cent structural and 50 per cent balance sheet. Yet the third scholar believed that the Japanese problem was definitely structural.

This third view seemed also to be the view of the Japanese government, as the document prepared by the Japanese cabinet office which came out in the middle of last year had put the structural problems of non-performing loans in the banking and other corporate sectors on top of the reform programs that the government will undertake. They would try to get these bad loans or bad debts out of the balance sheets so that the banks could lend again, and the companies could function again. They might even consider nationalise problem banks if there was no other way out. So, this is the first set of problems that they want to tackle.

The second set of problems is about deflationary pressure. Normally we fear inflation more than deflation because normally it is more difficult to control inflation than deflation. But the present deflation in Japan is very stubborn and difficult to get rid of. It has been said that the government has tried all their might to make the money cheap by lowering the interest rate, which is almost 0 per cent now, but without much effects on aggregate demand which can push the economy out of deflation and recession. When this does not work, the government tried fiscal policy by increasing its own public spending. It had been said that the government had pumped trillions of yen into the economy, yet the result was not good. But they cannot simply stop it now because if the households and the public are not spending, and the government is also not spending, the situation could get worse quickly. Before the end of the last budget year in Japan, the government has to engage in mid-term budget increase. They need to keep the economy moving until some other correction techniques could be found.

One of these other correction techniques may be the exchange rate policy. When all else fails, devaluation of the yen may be a way out because the expected effect on the increase of demand for Japanese exports will stimulate the Japanese economy. But this may not be the right correction method because if the Japanese problems are really struc-

tural, using exchange rate policy may provide a temporary help, but will not get to the root causes of the problems. Moreover, using cheap yen policy is likely to hurt ASEAN economies which are still suffering from economic crisis. It may trigger another round of competitive devaluation that not only will create instability in the region, it may also neutralise the corrective effect within Japan itself.

The next problem is about growing unemployment in Japan. Unemployment rate of over 5 per cent may look big in Japan because, in Japan, where lifetime employment was used to be the norm of business practices, they were not used to having Japanese population having nothing to do. But in most industrialised countries, unemployment of this size is not considered serious. It may even be considered normal or not unusual. The state or the government will need to put its social security or social safety net system in place to help these people until the economic activities in the economy improve, and the people will find their jobs again. Still on this issue, I cannot help but imagine that if Japan had adopted a more open immigration and employment policy 10 or 20 years ago, the problem that we see today might not have happened, or not with the same severity. It is not necessary that having more foreign workers in Japan always mean higher unemployment rate, because different type of work and different wage structures could redefine labour market situations in Japan, which could have positive repercussion on industrial cost structure and changes in consumption and demand patterns in Japan. I could add here that the foreign worker policy in Taiwan is a correct one that indeed Japan could have adopted long time ago.

Finally, on the internationalisation of Japan. It seems to me that in order for Japan to play a role of world economic leader, it may need to change its perception that Japan is just a small country, but indeed a very big and powerful country. This new sense of confidence may redefine its relations with other countries around the world, especially with countries around East Asian region. Japan may need to behave more like a 'big brother' with a keener sense of sacrifice and goodwill towards other developing countries in the region.

Now let us turn to the People's Republic of China. I think most of people have been surprised that the PRC has grown so fast in the last 10 to 15 years. This has become possible for at least two reasons. One is the realisation that state planning and market control is a futile way to develop the economy, and the other is that, once the force of the market is accepted, the best policy is to try to maintain the balance in the market by good macroeconomic managements such as keeping the price at an appropriate level, adjust consumption, saving and investment; increase the productivity, and so on. The enormous capital that flowed into the PRC in the last 15 years, and a big chunk of that actually came from here (Taiwan), has helped transformed the PRC from a socialist, state-controlled economy into a bustling, free-market economy. At the rate that the PRC is growing at present, it may catch up with Japan and the US in terms of its per capita income within 20 years. The People's Republic of China truly has the potential to be a world economic leader.

But things may go wrong in the PRC economically and politically. Take economics first. To me, the most worrying problem that may stump the PRC is the very rapid disparities and inequalities among the Chinese people that have been brought about by very rapid growth. This may force the state or the government to slow down economic growth and probably will have to become more socialistic by putting more public money on redressing social and economic disparities. The increased income and wealth of the mainland Chinese people may also bring about rising expectation on the political front. They may need greater political freedom and democracy which could upset the present political structure. Do not forget that the PRC is still politically a socialist country. If it does not have programs to gradually democratise the country, it could run into more political troubles in the future.

What about countries in ASEAN? In my model, ASEAN countries must combine themselves together to act as one economic and political power to play an effective and meaningful role in this Triangular Relations. Many people do not believe that this is possible, but I think it is possible because there is no other choice. ASEAN countries simply

have to pull themselves together and act as a group because, individually, they are too small to exert their own individual power. In the 1970s and 1980s, ASEAN was quite successful as a political grouping. This turned out to be a smart move by ASEAN, although it was set up as an economic grouping rather than political grouping because at that time, there were not much economic activities within ASEAN itself. Now ASEAN do trade more with one another. If they could agree to work closely together, they can become a powerful economic grouping in their own right.

But as many ASEAN economies are still suffering from economic crisis, they need to continue to get out of this crisis first by continuing their economic reforms. They also need to remain competitive by constantly adjusting to changing economic environments. The more established ASEAN economies are no longer low-cost economies, and they can no longer rely on low labour cost as their strong suit in their development strategies, but, instead, should rely on the skills and experience that they have developed in the past 20 years to move the countries forward. I believe that greater democratisation and political stability in the ASEAN region is also a plus factor that will help ASEAN as a group to become a strong partner in my Triangular Relations.

### **3. Bilateral Relations and Third Party Interventions**

To go back to the earlier part when I said that any two countries may form partnership to extract rent from the third member in the Triangular Relations, this is unlikely to be a stable situation in the long run because the third member will react by changing its strategies that either allow it to penetrate the alliance or to usurp the alliance to prevent the realisation of rents or benefits. This is the dynamics of Triangular Relations that may take a long time to play itself out before a stable equilibrium is reached. But even when this equilibrium is reached, there is no guarantee that it will last forever, but it is likely that the equilibrium will be disturbed again in a changed environment, and the process of adjustments continue. This makes our attention to these problems inter-

esting because we have to be observant of possible changes in members' strategies all the time.

Let us look at the three possibilities that a bilateral alliance could be formed amongst Japan, the PRC and ASEAN. The first alliance can be between Japan and the PRC; the second between the PRC and ASEAN; and the third between ASEAN and Japan. With regard to Japan and the PRC, although it is unlikely at this juncture that the two countries could form an alliance for any purpose, there is a possibility that Japan may decide to create a stronger economic relations with the PRC. Japan already has the largest investment in the PRC in Asia, and has become a strong partner of China in the production of manufactured goods. This may be true, but the PRC may also want to diversify its investment partners and does not want to depend on Japan alone for major investment funds. Moreover, ASEAN as a group may find this situation intolerable, that all the investment funds from Japan go to China. So, they will try to do everything they can to divert Japanese funds from China to ASEAN. Not only that, ASEAN governments will also try to win special favour from both Japan and China for their own benefits. For instance, Thailand had recently asked China for special tax treatments that China gives to its bordering ASEAN countries like Vietnam, Lao PR, or Myanmar. This kind of maneuvering and strategic positioning goes on all the time in this Triangular Relations,

The second bilateral alliance is between the PRC and ASEAN. I have mentioned earlier about this Chinese coup during the last ASEAN Summit in Brunei last year when the Chinese Prime Minister, Mr. Zhu Rongji had proposed the China-ASEAN FTA within the next 10 years. Personally I don't think this will happen quickly or easily because a lot of things must be put in place before this could happen. For example, the PRC will have to become more established economically and politically before serious negotiations and agreements will take place. The more- developed half of ASEAN countries may also have to develop their economies and find their new competitive industries that complement rather than compete with more traditional, low-cost manufactured

goods from the PRC, while, at the same time, the less-developed half of ASEAN countries may find their own ways to work with the new China. For example, the new PRC may find it necessary to divest outside mainland China, and mainland Southeast Asia could be a natural growth area for China in the future.

As a result of this Chinese coup, the Japanese Prime Minister, Mr. Koizumi, could not sit still. He quickly counter-proposed Japan-ASEAN FTA. Those economists who follow the pattern of economic foreign policy of Japan in the past several years may be surprised by this move. This is because as a trading nation, Japan must depend on global, free and open market system. Japan always supported multilateral trading systems in the past as a means to advance its foreign economic policy. Suddenly this position has changed. Now Japan professes to support both bilateral and multilateral trading arrangements at the same time. Its FTA with Singapore is a benchmark decision in this respect. Its FTA with Korea is probably in the making or in the preparatory stage. So, Japan-ASEAN FTA is nothing unusual at all in the light of recent developments. In fact, under current situations, the Japan-ASEAN alliance has a better chance of success than the China-ASEAN alliance because Japan is more established economically and politically. Still, to be successful, Japan must be willing to play this game with ASEAN, which may require Japan to sacrifice or give up some of its benefits or positions in exchange for stronger alliance with ASEAN. In short, this move by the Japanese Prime Minister was a smart and appropriate response to the Chinese Prime Minister.

To sum up, what is the main moral of my hypothesis and analysis so far? Despite the possibility of confrontation and conflict, I think this Triangular Relations between ASEAN, Japan and the PRC is a healthy one because it will keep every country constantly on its toes. It is no doubt that even Japan is now running scared of its future, and this new-found interest in Triangular Relations with China and ASEAN could be a way out of its economic difficulties. For the PRC and ASEAN, this Triangular Relations with Japan as an active, competitive player will require

that they also remain stronger and competitive. All this will mean that whatever the configurations of bilateral relations between two members and the possibilities of interventions from the third member, all will gain from efficiency and constant awareness of competition.

In the Romance of the Three Kingdoms we have seen that progress and security was maintained when the three states remained strong and wise. And stability was achieved for many years. It was when some of the leaders of these states neglected their duties and weakened their positions that this equilibrium broke down, leading to the defeat of one state by another. Eventually all three kingdoms fell by an outside force. I think we can learn from the lesson of history, and make the best use of the opportunities open by this health Triangular Relations.

#### **4. The Implications for Taiwan**

I will now discuss another important issue that so far has been left outside the main discussion above. This is the role of Taiwan within the emerging relations between ASEAN, Japan and the PRC. Although Taiwan is an important economic player in East Asia, its current political relations with the PRC makes it very difficult for Taiwan to play a full and active role as a regional economic and political power in East Asia. In the Triangular Relations model that I have developed above, while it is already difficult for the third member to intervene or disturb the alliance between the other two members, the difficulties for members outside the Triangle such as Taiwan to get involved (to prevent rent seeking from other members, or share the accrued benefits) would be even greater. There are many ways in which Taiwan could amend the situations, and the remainder of this paper will discuss these many ways.

First of all, like the precondition to take part actively in meaningful bilateral alliance, members in question must get rid of its economic weaknesses before they can become an effective member. Taiwan is no exception to this rule. Indeed, it is imperative that Taiwan gets rid of its economic weakness quickly before it considers any future economic

strategies. Some may argue that the present economic recession, probably the worst in its 50-years history, is partially brought on or exported from outside, especially the recession in the US and Japan, but there is no denial that the situations inside the Taiwanese economy are also to blame for this. The country must continue to reform and restructure to face the challenges of increased globalisation and global competition. Once this is done, and Taiwan recovers from its recession, it will be in a better position to plan strategies in response to the strategies of different players.

Take the strategies of Taiwan towards its most important opponent (or ally, depending on how one looks at it): the PRC. In the past 50 years or so, there has been a gradual shift in the essence and emphasis of Taiwan towards mainland China. It started with the impending wish to return to the mainland but ended with the desired to be 'left alone' as a sovereign nation once it has realised that the earlier wish was not feasible. On accepting the fact that the increasingly stronger and more prosperous government in Mainland China is unlikely to let go of Taiwan, it is probably better for both sides to conclude an agreement of some sort that eliminates or erases the current state of political suspension. The prospects of peaceful and harmonious relations between the PRC and Taiwan could enhance the economic prosperity of both sides even further.

The chance of this happened in the near future can be made possible for at least 3 reasons. One is that there is a drastic change in economic conditions in Mainland China. In the past, the citizens and governments of Taiwan totally objected to the idea of unification with the mainland because of disparities in economic and political well-being. Now that Mainland China is growing quickly, and its systems of economic, and political, well-being could, one day, even exceed that of Taiwan, the chance of the Taiwanese aversion to life in mainland China could be assuaged or removed. The second reason is that there is a perceived moderation of political leaders on both sides to find peaceful solution to this political question. To cite some examples: President Chen Shui-bian in his New Year Message on January 2002 promised



six administrative goals for his government in the new century, and one of this promises was the reconciliation of cross-strait relations and the establishment of a permanent peach between Taiwan and the PRC. The PRC agreement to accept Taiwan in its new agreed-upon name, Chinese Taipei, as a member of APEC with equal economic status as that of the PRC itself is already an extraordinary event. More recently, two cabinet decisions can be looked upon as a positive movement towards a better relationship between Taiwan and the PRC. The Taiwanese government now allows Taiwanese chipmakers more freedom to invest in mainland China, bypassing the fear of losing its sensitive technology to its potential rival in exchange for a long term benefits from the vast market on the mainland. Similarly, the Taiwanese cabinet also approved draft amendment to the Statute Governing the Relations Between the People of the Taiwan Area and the Mainland Area to allow mainland Chinese investment into Taiwan.

The concurrent entries into the WTO of both the PRC and Taiwan could be the third reasons that could bind both economies more closely, and openly, together. Indeed, the excitement of the prospects of trading and investing more closely with mainland China has created what could be called 'China Fever' in Taiwan. Although there are some apprehensions in some quarters in Taiwan on the negative effects of more open trade and investment with mainland China, the majority view in Taiwan seems to be that the long term effects of this WTO membership are to the benefits of Taiwan. For example, Christine Tsung, the Minister for Economic Affairs, gave a strong assurance that Taiwan citizens' income will rise by 7 per cent, imports by 15 per cent, and exports by 12 per cent as a result of WTO entry. This prospective gains from WTO membership could only reinforce the possibility of the PRC and Taiwan working and being more closely with each other.

If both the PRC and Taiwan can be unified and act as one party or partner in alliance with the other in our Triangular Relations, the effectiveness in their strategies will be much enhanced. But what if the stalemate or political suspension continues? Taiwan then will have a few

other choices. The most obvious one in the case closer PRC- Taiwan alliance is not possible is for Taiwan to work more closely with Japan. Currently Japan provides the largest source of imports of Taiwan, and is the third largest market for Taiwanese exports after Hong Kong and the US. Taiwan and Japan are also close allies on security front when both are beneficiaries of the US strategic defence surveillance and protection. Therefore, the possibility of closer economic relations between Japan and Taiwan is naturally large. In the Second Japan-Taiwan Dialogue organised by the Global Forum of Japan in Tokyo in 2001, several participants on both sides suggested or recommended an FTA between Japan and Taiwan. This form of closer economic relations not only will be a catalyst towards an area-wide economic integration in the long run, it will also help promote and improve economic and structural reforms. On other occasions, there is a wide-spread belief that Japan and Taiwan are already in 'silent alliance'. This is said in recognition of the political sensitivity that exists between the PRC and Taiwan, and that 'Second Track Diplomacy' is being carried out within Japan and Taiwan that involve non- government organisations (NGOs) and private and academic opinion leaders.

Another possibility of closer economic relations is between Taiwan and ASEAN. For more than 30 years, Taiwan has consistently been one of the largest foreign direct investors in ASEAN. Without a doubt, Taiwan has contributed greatly to the economic development of many countries in Southeast Asia. Many ASEAN countries are very appreciative of this and would be willing to work closely with Taiwan. However, most ASEAN countries are mindful of political problems between Taiwan and the PRC, and often are very careful in their dealings with both Taiwan and the PRC. I do not think any of the ASEAN countries would like to 'choose side' because they have goodwill towards both. Perhaps more than any other countries in the world, ASEAN countries have a genuine wish for the peaceful resolution of political problems between Taiwan and the PRC. Had it not been for the fact that these political problems exist, ASEAN could have invited Taiwan to become a

member of its association already, that is of course if Taiwan would like to do so. Can Taiwan be a member of ASEAN when it is in Northeast Asian rather than Southeast Asia? Recently, I have read a speech of a former Minister of Foreign Affairs of Taiwan who actually claimed that Taiwan is in Southeast Asia and is a part Southeast Asia! Of course, if this is the case, the position of ASEAN would be much stronger.

All this time we have neglected to mention another East Asian country that can have substantial influence upon the configuration and impacts of the Triangular Relations. This country is none other than South Korea. The relationship between Taiwan and Korea has become closer and closer since both have normalised their trading and diplomatic relations with each other several years ago. Both are the examples of 'true' newly industrialised economies where all agriculture, manufacturing and services are all represented. Both are often used as model cases of successful modern economic development although both may differ essentially in their choice of techniques: Taiwan supported small-scale entrepreneurial type of industrialisation whereas Korea opted for large-scale, state-supported, industrialisation. If these two economies could pull their resources together and act as a single player, they could become another economic force to be reckoned with. In fact, if that happens, we may have to redesign our Triangular model and change it to Quadrangular Relations model which can become even more complex. To a lesser extent, however, the Taiwan- Korea FTA could offer an interesting case for our future study.

The eagerness of the CER countries in promoting free trade and investment in the Asia Pacific region is well known. These are two countries whose livelihood depends very much on foreign trade. Without it, or when trade becomes restricted, the welfare of their people will suffer. Taiwan can always find interest in free trade initiatives in these CER countries, and as such, can always look towards these two countries for any possibility of closer trading relations.

## 5. Conclusions

In this paper I have tried to analyse the emerging economic relations between two economic powers in East Asia, Japan and the PRC, with a group of Southeast Asian countries, ASEAN. Japan is already an established economic power but with grave and continuing internal economic problems. The PRC is not yet an established economic power but with unstoppable potential to become one shortly. Although these two economic giants could collude and become an economic hegemon in East Asia, the likelihood of that is small as the inclination for political and economic leadership of both countries dictates that they compete with each other. ASEAN is in a natural position to provide bilateral partnership or alliance with any of these real and potential economic powers. In the beginning, such as alliance may be undertaken at the expense of, or undertaken to exploit or seek rent from the third member, but realistically, this third member will always find it necessary to intervene or distract the alliance in some ways to prevent exploitation or rent seeking. Assuming that all members know and can react to the strategies of the other players, an equilibrium may be reached where all parties will be governed by strategies that call for most efficient policies. Low costs and zero profits may be experienced which assures the best use of resources with the greatest benefits to all consumers in the international community. This is a best state that a general free trade and investment can bring.

I have indicated in this paper that to reach that state and to be able to reap all the benefits from free and open competition, all members or players must maintain stable and healthy economies. There is a common understanding about the rules that govern good economic management such that the possibility of a Triangular Relations will require all members or players to be in good economic shape. This may call for economic policy based on market mechanism and timely adjustments to changes in economic conditions and rules of competition. At the end, despite the early or original attempt to exploit the weaker members of the community, as long as the possibilities of free com-

petition is observed, an equilibrium will be reached where the overall economic benefits are optimal.

Again, the message is clear. The world of today is the world of globalisation where barriers to trade and investment are broken down, and all players compete fairly with one another. These players will have to secure capability, physical as well as human, to play these games effectively. The situation in East Asia involving ASEAN, Japan and the PRC, and other economies outside this triangle, namely, Taiwan, Korea and Australia and New Zealand provides a rich field in which we can study the interplay between these opposing economic forces that will result in the East Asian region continuing to be a most progressive economic region in the world.



## **16. THE RATIONALE OF THAILAND'S BILATERAL FTA STRATEGIES\***

**By Medhi Krongkaew\*\***

### **Abstract**

The recent policy of the Thai government under the leadership of Prime Minister Dr. Thaksin Shinawatra to support numerous and wide-ranging bilateral free trade agreements (FTAs) with many countries around the Asia Pacific and South Asian regions appears to contradict its earlier indication of an economic policy favouring an inward-looking, domestically oriented approach to economic recovery and management. The truth however lies in the fact that the government wants the strengths in both domestic and overseas markets. So, once the two largest economies in the world, the US and Japan, have changed their positions regarding the earlier aversion to bilateral FTAs, Thailand quickly seizes on this opportunity to go further than many other countries in the region. This change in Thai foreign economic policy reflects the personality and business experience of Dr. Thaksin who has since become a very strong political leader and economic manager of Thailand. Thailand's current policy towards FTAs, therefore, must be understood within the context of Dr. Thaksin trying to push Thailand into a position of leading regional economy with himself as regional leader; that he is demonstrating his character of a shrewd business strategist; and that he is also an economic pragmatist. The improving Thai economy will continue to enable the Thai Prime Minister to experiment with many more FTAs in the years to come.

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\* Paper presented at the seminar organised by the International Institute of Economic Studies (IIES), in Tokyo, on April 22, 2004.

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## 1. Introduction

Thai economy is riding on the crest of good economic news at the beginning of 2004. With the growth rate of its GDP in 2003 at 6.7 per cent, Thailand has regained its status of one of the world's fastest growing economies. Early this year also, the UN Conference on Trade and Development (UNCTAD) reported the result of a survey of 87 international direct investment location experts worldwide which gave Thailand the fourth best place for foreign direct investment after China, India, and the US.<sup>1</sup> To some, this success is believed to be attributable to the handiwork of its forceful Prime Minister, Dr. Thaksin Shinawatra, but to many, it is probably more appropriate to say that it is the combination of energetic policies of Dr. Thaksin and his government, and the favourable world economic conditions that bring about this good economic tiding.

One of the most outstanding economic happenings that take place during the last 3 years of the Thai government under Dr. Thaksin is the extraordinary efforts that the Thai government has put on proposing, negotiating, and creating bilateral free trade agreements (FTAs) with various like-minded countries or groups of countries near and far. It is not far from the truth to say that Thailand is one of the most active pursuers of this form of regional economic integration in the world. At present, Thailand has already concluded a bilateral FTA with Bahrain on December 2002, with the signing of an FTA with Australia expected by May 2004. Under various stages of development include FTA discussions and negotiations with Japan, China, Korea, the US, India, Peru, New Zealand, and the BIMSTEC group, a group of South Asia countries consisting of Bangladesh, India, Myanmar, Sri Lanka, Nepal, and Bhutan. This does not include a wider consideration and negotiation involving an economic group that Thailand is a member such as ASEAN-China, ASEAN-Japan, and ASEAN-CER.

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<sup>1</sup> UNCTAD, Prospects for FDI Flows, TNC Strategies and Promotion Policies: 2004-2007, 15 April 2004. From UNCTAD Website at <<http://www.unctad.org>>



These efforts can be seen both as the cause and effect of the economic success mentioned above. On the one hand, Dr. Thaksin believes that active, even aggressive, FTA strategies will bring about faster and wider economic benefits to Thailand. On the other hand, the current economic success of Thailand has encouraged other countries to seek cooperation with Thailand regarding possible FTAs. Whether current FTA efforts in Thailand are seen as a cause or effect to Thailand's economic success is not so important. What is more important is the rationale behind such efforts: Why Thailand, or more specifically, why Dr. Thaksin, decided to go through FTA route in his international economic policies? Does Thailand still adhere to the principles of multilateral trading negotiations a la WTO? What basic policy stance does Thailand have in proposing and negotiating various FTAs in other countries? What kinds of benefits and costs does Thailand see arriving from various FTAs? What backup plans does Thailand have in coping with the change and contingencies of FTAs in the future? These are some of the pertinent questions that will be discussed in this paper.

## **2. Basic International Economic Policies of Thailand**

The government of Dr. Thaksin came into power in February 2001 after a landslide victory in the general election in January 2001. This massive victory has enabled Dr. Thaksin to change many public policies right from the beginning. On international economic policies, the new government was very serious about the change in foreign economic policy of Thailand from the one based on traditional diplomacy first, economic matters second, to the one that stresses overall economic gains first, and everything else second. This is obvious from the policy statement announced by the government to the parliament (see Annex 1) in February 2001 which said: "The Government is determined to elevate the international trade policy from one solely emphasising the acceleration of exports at all levels to one focused on developing a global marketing network system able to respond to the rapidly changing needs

of consumers, thus integrating the Thai economy as part of a powerful global economy in a borderless world". The government would like to develop Thailand into a centre for global trade in goods and services, and in so doing, it must develop its own products (agricultural as well as manufacturing), and services (including tourism and communications systems) that are world-class and world-recognised.

This emphasis on new external economic relations appeared to contradict what Dr. Thaksin had done in the early part of this government. He gave several speeches in various places (including at international meetings and foreign correspondents club) saying to the effect that Thailand would no longer depend on foreign direct investment and exports as its main engines of growth, but instead would look inward to stimulate the domestic economy for future growth. This had created an impression of an "anti-foreigners" policy that caused concerns both inside and outside Thailand. But Dr. Thaksin might have intentionally done that to gain domestic public support in a situation where the Thai public was still bitter about the perceived subjugation of Thai economic sovereignty by the IMF, and the exploitation of Thai economic weakness by foreign fund managers and big multinational companies. As it is argued elsewhere (see, for example, Medhi 2001), Dr. Thaksin is pro open trade and outward-oriented rather than inward-looking economic strategies. But his rhetoric on dependence and reliance on domestic economy serves to increase confidence among the Thai people. In the end, his unique 'dual-track' policy, that is reliance on expansion of both domestic and external sectors, has become the hallmark of his economic recovery and development policies.

More can be said about how Dr. Thaksin could enable the Thai business sector to work under new economic environments and opportunities. Financial support to the small and medium enterprises was set up through an SME bank. The government also planned to promote the establishment of a fund to provide the opportunity for Thai investors and entrepreneurs to develop and utilize unique Thai know-how and indigenous intellectual property rights with full treaty protection. In

agriculture, the new government wants to develop Thailand as a centre for the production of organic agricultural products. In industry, the government will support measures to increase value added in industrial production, and will support the growth of new entrepreneurs in small and medium-sized industrial businesses in the new knowledge-based economy. In services, the government will help local business people by instituting zoning measures and relevant regulations to counter the threat of large-scale retail businesses which are mainly owned by foreign companies.

Dr. Thaksin's policy on FTA came later in his economic management, but when it came, it came in gushes. When he became prime minister of Thailand in February 2001, FTA movements in East Asia were still relatively weak. It is true that in East Asia, Singapore was the first economy to actively seek bilateral FTAs with other like-minded economies, and the first East Asian FTA was between Singapore and New Zealand which started the negotiation process in 1999 and came into fruition in 2000. But suddenly major economic players in Asia Pacific like Japan and the US began to shift their trade policies from traditional reliance on multilateral trading arrangements alone to concurrent working mechanisms of established multilateralism and bilateral FTAs.<sup>2</sup> The failure of the WTO Ministerial Meeting in Seattle at the end of 1999 could have some adverse effects on the trust in the practicability

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<sup>2</sup> In Japan, this period coincided with the leadership of the new, reform-minded Prime Minister, Mr. Obuchi Keizo. In May 1999, the Japanese Ministry of International Trade and Industry (MITI) released its 1999 Trade White Paper, highlighting three main reasons for the shift of policy. First, MITI believed that agreements like NAFTA and MERCOSUR have expanded trade and investment flows among members. Second, countries that maintained low government and commercial barriers to trade were likely to benefit more in an era of rapid globalisation. And finally, during the seven rounds of multilateral trade negotiations conducted by GATT, integrated blocs played an important role in enhancing the development of the international trading system. In May 2000, MITI's White Paper on International Trade 2000, again endorsed the policy shift toward bilateral or regional trade agreements. In the US, the new administration under President George W. Bush had brought in a new US Trade Representative, Mr. Robert Zoellick, who quickly redirects the US trade policy to both multilateralism and bilateralism.

of the WTO process. So, Thailand and Dr. Thaksin were not in a position to make any move until they were sure that major players such as Japan and the US are now leading the way to bilateral FTAs. It may be seen that in the official statement on international economic policies (see Annex 1), no reference was made to this new form of regional trading arrangement (RTA). It only says (in Section 4.3) that it "...supports free trade in the international arena". So, only half year into the position of government, Dr. Thaksin began to see the merits and benefits of bilateral FTAs.

Table 1 summarises the background, current progress, and future prospects of all ten bilateral agreements or frameworks on free trade or free trade negotiations. At present only the FTA between Thailand and Bahrain is concluded (but actual free trade has not started yet), with FTA between Thailand and Australia nearing the stage where formal signing between the two governments could take place soon. Free trade arrangements with other countries are progressing with great speed.

### 3. The Why and How of Thailand's FTA Strategies

There are already numerous studies on the pros and cons of multilateral trading arrangements and bilateral trading arrangements, or multilateralism versus bilateralism.<sup>3</sup> Findlay (2001), for example, sums up the positive and negative effects of a preferential trading arrangements of which an FTA is included vis-à-vis a multilateral trading arrangement as follows:

#### Positive effects of FTA

- There is what is known as the dynamic time path effects whereby preferential arrangements build the momentum for further multilateral liberalisation.

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<sup>3</sup> (See, for example, Scollay (2003), Lloyd (2002), Medhi (2001), Yamazawa (2002), and Findlay (2001)).

- Preferential agreements helps ‘lock in’ policy change. Policy change which is announced by which is not credible will not have any impact. The commitments made in a preferential agreement provide one way of adding to the credibility of policy change, since backsliding will be punished by loss of the advantages provided by the agreement.
- Preferential agreements may lead producers in economies with high external tariffs to argue for lowering those tariffs, especially the ones applying to intermediate goods.
- Preferential agreements can be used as a threat to promote the multilateral process. They can help participants go further than they could in the multilateral system. They can establish deal with new policy issues and with emerging impediments to trade and investment. Also, a preferential approach is said to help the process of education about free trade and its benefits.

#### Negative effects of FTA

At least five negative views on FTAs could be listed:

- Benefits from preferential agreements can also come from a general liberalization of trade, and will also be larger in that case.
- Members of preferential agreements are more likely to raise barriers to non-members, even when external tariffs are low.
- Preferential structure may bring about or create rents members. But once they get used to the benefits from these rents, members do not want to give them up as they cannot be compensated by the move to freer trade. This is the ‘snout in the trough’ phenomenon as Findlay has called it.
- Negotiation of preferential agreements uses up scarce policy making and negotiating capacity and diverts attention in the policy making system.
- Other multilateral mechanisms provide even better benefits than those claimed for a preferential agreement. The WTO for example provides mechanisms for binding policy that avoid the disadvantages of trade diversion.

Lloyd (2002) further points out the negative effects of an FTA that (a) multiple systems of rules which accompany FTA negotiations and arrangements can be confusing and difficult to handle; (b) FTA undermines the MFN principle further; (c) FTA creates or generates unequal access to world market, and trade benefits are likely to accrue to developed countries. The hub and spokes configuration of bilateral FTAs also confers unequal and unfair trading advantages to trading partners. But despite these, he admits that an FTA may be beneficial. One motive for a country that is a member of a multi-country regional trading arrangement (RTA) engaging in bilaterals on its own account might be to force other members of the bilateral to make more progress in trade liberalisation and deep integration in the RTA. A more simple reason for a country willing to enter into an FTA despite the doubt on the economic gains is the fear of exclusion from major markets. In this context, exclusion does not mean that a country is denied access to a market, but that it has access on terms less favourable than some other country or countries.

Reflecting the views of most East Asian economists, Yamazawa (2002) believes that any realistic negative effects of an FTA are likely to be more than offset by positive dynamic effects of intensified competition, economies of greater scale, promotion of investment and technology flow. Furthermore, Yamazawa argues that the criticism against FTA is based on the concept and understanding of traditional FTA of 50 years ago, where the reduction of tariff is the only major objective. 'New Age' FTA has gone much farther than simple tariff reduction into trade in services, investment facilitation, harmonisation of rules and standards, intellectual property rights, dispute settlements, and so on. The benefits of this New Age FTA certainly outweigh its costs.

These above views on the pros and cons of bilateral FTA against multilateral trading arrangements are well known to Dr. Thaksin and his cabinet members. The fact that the Thai government comes out so strongly in support of FTA must show something very unique and

special.<sup>4</sup> This does not mean that Thailand has lost interest in multilateral trading arrangements like WTO, or to a lesser extent, APEC, but like the US and Japan, Thailand is also adopting this dual-track approach to trade negotiations, that is supporting multilateral trade negotiations and bilateral trade negotiations at the same time. There are several reasons that can be used to explain Thailand's FTA strategies at present, and we will discuss some of them below.

### **(a) Thaksin as a Decisive Political Leader**

It may be noticed that this paper often refers to Dr. Thaksin and Thailand, or Thaksin and Thai government, as one of the same. Most Thais would accept this to be true because in the last 3 years he has run his government (and to a certain extent, his country) with iron fists of speed and determination. He wants to be in control of every aspect of government, and will have a say in almost all important decisions of the government or of the country. This does not necessarily mean that it is a bad thing to do so, but to preside over all major decisions means that he has to work very hard, most of his ministers or top bureaucrats would tend to defer all these major decision making to him. His government would be listless if somehow he is incapacitated or unable to work. But his strong-hand techniques of government have seen many "good" results. The strong economic recovery through his domestic demand stimulation, and general economic growth through his open-market competition is one, the quick public sector reform is another. He was able to do this because he has both wealth and power. His political foundation is so strong that no one in the government could dare to challenge his authority. Therefore, he can get things done quickly, and that includes the swing of Thailand's trade policy from a small and passive member in international economic grouping like WTO to an innovative and active member in various regional trade arrangements (RTAs).

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<sup>4</sup> In late March, the Thai cabinet approved the budget of 192 million baht or almost 5 million US dollars to be used in the negotiations of the 10 FTA activities shown in Table 1. This budget includes fund to hire lobbyists (probably in the case of Thailand-US FTA) to give advice in the negotiation process.

### **(b) Thaksin as a Regional Leader**

There are two Asian political leaders whom Dr. Thaksin admires greatly, Mr. Lee Kuan Yew and Dr. Mahathir Mohamad. To him, these two political leaders had what it takes to stand up to the West, and could prove that they could do things differently from others, in Asia, and still succeed. Dr. Thaksin probably would like to have a chance to do the same when he can, although this does not mean he wants to consciously measure up to the two senior political leaders. Dr. Thaksin indeed has opportunities to get involved in activities that can be seen as a reflection of his regional leadership. One is his initiative to set up the Asian Bond Fund (ABF), and the other is his attempt to create and sustain the Asia Cooperation Dialogue (ACD).

First, ABF is an outgrowth of Thai government's initiative to create swap arrangements among East Asian countries that had agreed to provide temporary financing to each other in emergencies. From swap arrangement, Thailand proposed an actual fund that can be subscribed by interested countries in East Asia, and the fund can be used to buy sovereign and quasi-sovereign bonds issues by Asian governments in international markets. In the next step, the Asian Bond Fund can be extended to invest in various local market markets in local currencies as well. At present, the size of this ABF is 1 billion US dollars with India pledging to contribute another 1 billion US dollars to the Fund.

Second, ACD is the outcome of Dr. Thaksin's idea, who suggests that Asia as a continent should have its own forum to discuss Asia-wide cooperation. This is a loose forum without specific organisational or institutional structure, but it is possible that the ACD process can lead to a more substantial undertaking such as the development of an Asian credit-rating agency, an Asian dominated currency, an Asian fund management institution, and even an Asia-wide FTA. More immediately, however, Thailand would like to see activities in ACD consisting of specific working groups and projects. Indeed, the development of the ABF and Asian Bond Market is considered a part of ACD.



It is quite clear from the two initiatives above that Dr. Thaksin is very keen to play a role of a regional visionary. When the Prime Minister of Japan proposed the idea of Japan-ASEAN Closer Economic Partnership, it was Dr. Thaksin who had made a very enthusiastic response, and indeed this had led to his proposal to carry out a separate bilateral FTA between Thailand and Japan but along side the Japan-ASEAN FTA. Dr. Thaksin is also the first Asian leader who seriously pulls India in to join the activities of ASEAN and East Asia, and he is the first East Asian leader who suggested the first FTA between India and Thailand. Another interesting initiative of Dr. Thaksin is the proposed FTA between Thailand and Peru. Obviously the vision of Dr. Thaksin has gone farther than the confine of Asia. He wants to seriously probe the possibility of Thai trade expansion into Latin America through the first Latin American country that never has any RTA with anyone before.

### **(c) Thaksin as a Shrewd Business Strategist**

Perhaps this last point on Thailand-Peru FTA shows Dr. Thaksin in another light, as a shrewd business strategist. First it was Bahrain that Dr. Thaksin would like to use as a gateway to the Middle East. Thailand has a section of the country in the South which is predominantly Islamic, and as such, Thailand could naturally qualify to be a producer of Islamic food for sales in the Middle East. In the case Peru, it could be Thailand's gateway to South America. Another gateway for Africa could be open soon.

What is most important in the eye of Dr. Thaksin with regards to Thailand's FTA deals with larger economies such as Japan, China, and the US, is market opportunities. The total population of all countries that Thailand is in the process of doing an FTA with amounts to some 3 billion. This gives an almost limitless opportunity for Thailand to produce and sell to the population in these trading partners. Of course, Thai has to open its markets and its 63 million populations too, but the benefits to Thailand in greatly expanded market are so obvious. But Dr. Thaksin has warned that any trade under the new conditions will face a tough

regulation on the rules of origin, that goods must be produced in Thailand. This has led him to suggest that Thailand will have to increase its own local content, to be able to produce most parts of the products by itself rather than use parts from others.<sup>5</sup> This trade strategy could go a long way towards strengthening production capability of Thai economy and industries. Outside investors will come in with their capital, to be able to produce goods in Thailand for sales outside Thailand in Thailand's FTA trading partners.

#### **(d) Thaksin as the Pragmatist**

Perhaps what makes Thailand popular as a trading partner in its FTA deals with other countries is its willingness to be pragmatic in negotiating with its trading partners. First, Dr. Thaksin would approach his FTA partner with a positive attitude that both sides would benefit from this agreement. Therefore, it would be wrong to set out with an intention to take as much advantage of one's trading partners as possible. On the contrary, a give and take attitude should be a good basis for negotiation for a final win-win situation. Second, each trading partner will have different critical positions that are not negotiable, for the time being anyway. So, there is no point to dwell on this point alone, but it would be better to look at a bigger picture.<sup>6</sup> Third, benefits and costs sometimes should be assessed from a broader perspective, not just between two countries. We may lose in our deal with A, but we may gain in our deal with B, and this could still bring about a deal. Fourth, a clever trader must always remain alert and constantly adjust to changing situations. A defensive trader is likely to be marginalised and eventually go out of

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<sup>5</sup> This does not mean that the government would go back to the old system of forcing the minimum percentage of local content in production process, but rather indicates that domestic producers are able to supply most of the inputs or parts needed in future production.

<sup>6</sup> A good case in point is Thailand's reaction towards Japanese position regarding its internal rice market. Although Thailand would like Japan to open its rice market, but to insist on this to the point of failure of negotiation would be counter-productive, especially when the benefits from other parts of negotiations are much larger.

business. Finally, trading partners must always maintain mutual trust and confidence, without which the deal would not last very long.

#### **4. Concluding Remark: A Valid Rationale?**

On February 18, 2004, Dr. Thaksin was invited by the Federation of Thai Industries, the powerful association of Thai manufacturers and industrialists, to inaugurate its Conference on Trade Liberalisation and Business Opportunities and give his opening speech. He chose to speak on the subject of FTA Vision of Thailand and the Expected Benefits which could be regarded as one of most important policy speech on this issue. The essence of his speech is partly explained in Section 3 above. In this concluding part, we will quote from parts of his speech that truly reflect what he has in mind about Thailand's strategies on FTA.

- "...Merger and acquisition happen in the business sector because they could gain from the economy of scale. States also gain from binding together in the form of WTO. But today we can't rely on economy of scale alone; we must rely on economy of speed too. The WTO system is good but cumbersome and slow, therefore FTA system is born. An FTA system is a system for strategic alliance and partnership. If we don't actively seek that we will be left behind".
- "...What I hate most in my life is to be on the defensive. I don't like to be on the defensive. Whenever I am on the defensive I will leave that game and create another game where I can be on the offensive. Therefore, Thailand must stop to be on the defensive. If you are in business and you are on the defensive, you will become smaller without knowing it".

- “...Rice is the heart of Japan. It will not give this up easily. There is no point to get obsessed on this rice business when there are other things we can benefit from the deal with Japan”.
- “...One of my characters is that I don’t like to take advantage of others. There should be a give and take in our relationship. If you go to someone for the first time only to ask for help, you may get help out of that person’s kindness. But to do so for the second time, you may be frown upon. Do it for the third time, then no one will want to deal with you anymore. That’s why I want to change Thailand’s position. We no longer want to be an international beggar”.
- “...Footballer who runs after the ball will not get it; he must run in front of it. Like footballer, we must analyse the situation and look ahead, make plan and go ahead and execute it. We can change or make adjustments as we go along. Don’t wait until everything is perfect before we make a move. Perfect conditions do not exist in this world. Anyone who will wait until the situation is perfect may have to die 10 times before he can get another chance of rebirth. Once we are sure of what is good we start walking. When we encounter obstacles we solve them as we walk along. We do this to reach our goal”.

Listening to those speeches, no one can deny that this Thai leader is full of energy and vision. Dr. Thaksin may have run into a feud with many of his critics who dislike his authoritarian style of government and his penchant to act alone without much consultation or participation of others, but as long as the Thai economy and the Thai people continue to prosper through his economic policies, the majority of the Thai people would be willing to accept him and his brands of economics and politics. In this case, his rationale for Thailand’s FTA strategies must be considered valid albeit a little unusual.

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**Table 1:** Current State of Thailand's FTA Efforts

What FTA	Background	Current progress	Future prospects
Thailand-Bahrain	<p>This is the first FTA that Thailand has concluded with another country. The agreement on Closer Economic Partnership between Thailand and Bahrain came into effect on December 29, 2002. Thailand expects this FTA to pave the way for greater economic expansion of Thailand in the Middle East.</p>	<p>At the start of the Agreement, Thailand offered an early harvest list of 626 commodity items where the tariff was reduced to between zero and 3 per cent, with stipulation that they will all be reduced to zero by January 1, 2005.</p> <p>The remaining more than 5,000 commodity items will be divided into 3 groups: (a) the Fast Track group which consists of about 40 per cent of these remaining good items will have their tariffs reduced to zero by January 1, 2005; (b) Normal Track group which also consists of another 40 per cent of the total list of commodities will receive zero tariff by January 1, 2007; and (c) Other Products group in the remaining 20 per cent will have no tariff by January 1, 2010.</p> <p>On trade in services, both sides have started to discuss on service areas that are of their respective interests. Bahrain is interested in finance and banking, and telecommunication sectors, whereas Thailand is interested in construction and related industries, health and tourism industries.</p>	<p>Discussions continue on tariff reduction, non-tariff barriers, and the speed up of service and investment liberalisation.</p>

**Table 1:** Current State of Thailand's FTA Efforts (cont.)

What FTA	Background	Current progress	Future prospects
Thailand-Australia	<p>Thai and Australian trade ministers met at WTO Ministerial Meeting in Doha in November 2001 where mutual interests in forming an FTA were expressed. A Joint Scoping Study Group was subsequently set up whose report 6 months later led to FTA negotiations between the two sides. The two negotiation teams met 8 times between August 2002 and October 2003, and the basic final conclusion was reached in late October 2003. The working version of Thailand-Australia FTA should be ready for signing by the heads of two governments in May 2004.</p>	<p>On trade, Thailand will reduce to zero immediately at the start of the agreement about 49 per cent of total commodity items such as grains, coco products, mineral ores, and fuels, and the remaining 51 per cent of the products such as fruits and vegetable, plastic, paper, textiles and clothing, steel, machineries, and electrical appliances will be reduced to zero per cent by 2010. Australia will do the same with regard to more than 80 per cent of the list of commodities.</p> <p>On services and investment, Thailand will allow Australian investors to invest up to 49.99 per cent of all economic activities except communications and financial services. Australia will also allow Thai investors to invest in all activities including real estate; relax visa rules to Thai workers such as cooks.</p>	<p>There are still issues that conclusions cannot be made. These include issues on the rules of origin and local content, especially on textile and clothing, and motor vehicles.</p>
Thailand-China	<p>China already announced its intention to set up FTA with ASEAN at the ASEAN meeting in Brunei in 2001. The ASEAN-China FTA discussion is now on-going. However, Dr. Thaksin in his visit to China in February 2003, proposed to the Chinese government to have an early harvest agreement on fruits and vegetable between Thailand and China under the framework of ASEAN-China negotiations.</p>	<p>Agreement between the Government of the People's Republic of China and the Government of the Kingdom of Thailand on Accelerated Tariff Elimination under the Early Harvest Program of the Framework Agreement on Comprehensive Economic Cooperation between ASEAN and China was signed by Ministers of Trade of Thailand and China in June 2003, resulting in the reduction to zero per cent of tariff on all locally grown fruits and vegetable by October 1, 2003. Between October to December 2003, Thailand exported 2,350 baht worth of fruits and vegetable to China, and imported 1,977 baht worth of same from China.</p> <p>After this successful early harvest agreement, Thailand has proposed to China to accelerate tariff reduction in other commodity groups as well.</p>	<p>Other ASEAN members are concerned that this early harvest agreement may adversely affect the overall ASEAN-China FTA negotiations. However, the Thai government believes that this early harvest may stimulate faster conclusion in the ASEAN-China FTA negotiations.</p>

Table 1: Current State of Thailand's FTA Efforts (cont.)

What FTA	Background	Current progress	Future prospects
Thailand-Japan	<p>Along the line of ASEAN-China FTA, Japan also proposed to conclude an ASEAN-Japan FTA within 10 years from 2002. Even before this decision from Japan, Dr. Thaksin had already proposed the Prime Minister of Japan in November 2001 the possibility of Thailand-Japan FTA. At the Boao Forum for Asia Meeting in China in April 2002, Thai and Japanese leaders agreed to set up Working Group on Japan-Thailand Economic Partnership to study such a possibility based on the Japan-Singapore Economic Partnership Agreement. This Working Group was later expanded into a Taskforce and completed its study in November 2003. The report of this Taskforce now forms the basis for the present negotiation between Japan and Thailand.</p>	<p>At the ASEAN-Japan Commemorative Summit in Tokyo in early December 2003, Prime Ministers of Thailand and Japan agreed to formally launch negotiation process for Japan-Thailand Economic Partnership (JTEP). The first meeting of the two sides was conducted in Bangkok during 16-17 February 2004 with a major result that commodities will be divided into 3 groups: Early Harvest Group which will have zero tariff right away; Normal Group which will have zero tariff in 5 to 10 years, and Sensitive Group which is subject to further negotiation. This is to pre-empt difficulties in reaching agreements on sensitive issues on agriculture, of which a special Working Group will be formed to deal specifically with this issue.</p> <p>Japan is interested in the change in Thai rules against ownership of property by foreign nationals. It also wants deeper cooperation in intellectual property rights, competition policy, e-commerce, and trade and investment facilitations.</p>	<p>The second meeting for JTEP was held in Tokyo during April 7-9, 2004. The outcome of the meeting is not yet known.</p>
Thailand-India	<p>During Dr. Thaksin's official visit to India in November 2001, he proposed the possibility of a Thailand-India FTA to the Indian Prime Minister. The two leaders agreed to set up Joint Working Group to study such a possibility. The positive result of this study had led to the signing of the Agreement on the Framework on Thailand-India FTA in October 2003.</p>	<p>The Framework stipulates that negotiations on tariff reduction on commodities begins in early 2004 and finish by March 2005, with the goal of zero tariff by 2010. Among the early harvest group, included goods items are fruits and canned fish, and manufactured products such as gems and jewellery, air conditioners, electrical appliances, furniture, and engine parts. On trade in services and investment, both have agreed to start gradually activity by activity, to be completed by 2006.</p>	<p>Current negotiations are on Rules of Origin and local contents. Early harvest tariff reduction will not start until later 2004.</p>



**Table 1:** Current State of Thailand's FTA Efforts (cont.)

What FTA	Background	Current progress	Future prospects
Thailand-US	During the APEC Summit in Bangkok in October 2003, the Thai Prime Minister and the President of the US agreed to start the process for Thailand-US FTA. This is one of the most important FTA undertakings of the US which has already concluded an FTA with Singapore, and the FTA with Australia just about to finalise.	Thailand has sent its first negotiation mission headed by the Minister of Commerce to Washington DC in March 2004 with a position that Thailand wants to develop and promote economic relationship with the US in the long term. It expects that both sides will be willing to give and take, as no one side could all gain or all lose. With this basic belief, a win-win situation could be reached.	This is probably the most difficult and most sensitive FTA negotiations for Thailand as the issues go beyond economic considerations into political and security reasons as well.
Thailand-Peru	During the APEC Summit in Mexico in October 2002, the Thai Prime Minister and the President of Peru agreed to study the possibility of a Thailand-Peru FTA. A year later, a framework agreement for closer economic partnership between Thailand and Peru was signed in Bangkok during the APEC Summit in October 2003.	A typical area of negotiations is agreed, that is, on the liberalisation of trade in good and services, and in investment, and on the expansion of cooperation in other trade-related areas. The first negotiation between the two sides took place in Bangkok in January 2004, with the goal to complete free trade by 2011. Three Ad Hoc Working Groups will be set up to study the issues of market access, sanitary measures, and technical barriers to trade.	Up to 4 meetings are scheduled between Thailand and Peru negotiation teams in 2004.
Thailand-Korea	Korea has signed an FTA with Chile since early 2003 but still unable to get ratification from its parliament. Therefore, the likelihood of getting into FTA with other nations while the Chile affair is still pending is small. Yet Thailand had made it approach for a Thailand-Korea in early 2003, to be firm up by the visit of the Thai Prime Minister to the President of Korea in August 2003. The same 3-Group of Commodities Approach is used to start this negotiation.	Not much progress beyond general agreement in principle to start the study process. The difficulty in ratifying the Korea-Chile FTA has somewhat stalled the momentum of Korean FTA efforts.	Despite the lack of progress on Thailand-Korea FTA, the potential benefits of closer economic partnership between these two countries are great.
Thailand-New Zealand	Also during the APEC Summit in Bangkok in October 2003, the Thai and New Zealand Prime Ministers agreed to launch a study on the possibility of a Thailand-New Zealand FTA, which is expected to be completed within 2004.	The first meeting between Thai and New Zealand teams took place in Bangkok on December 9, 2003, and the Joint Study Group was set up to complete the study with report by the end of 2004. In January 2004, the Head of Thai Negotiation Team for negotiation with New Zealand was appointed and is expected to start his work shortly.	

Table 1: Current State of Thailand’s FTA Efforts (cont.)

What FTA	Background	Current progress	Future prospects
Thailand-BIMSTEC	This is the first multi-country FTA that Thailand will be engaging in. The framework agreement between Thailand and 5 South Asian nations, namely Bhutan, India, Myanmar, Nepal, and Sri Lanka was signed on February 8, 2004.	As a result of the agreement of the framework for negotiation, the Trade Negotiation Committee will be set up by this group to start the negotiation process in July 2004.	

## **Annex A: Official Policy Statement on International Trade and Finance**

### **1. Commercial and International Economic Policies**

The Government is determined to elevate the country's international trade policy from one solely emphasizing the acceleration of exports at all levels to one focused on developing a global marketing network system able to respond to the rapidly changing needs of consumers, thus integrating the Thai economy as part of a powerful global economy in a borderless world. The strategy will be as follows:

#### **1.1 Commerce**

(1) Support and promote the preparedness of the private sector in coping with competition in the international trade arena. Towards this end, modern marketing approaches must be employed; organizations, personnel and an information system must be developed; planning and development of production must be in line with the needs of the market; production and sales networks must be interlinked to yield maximum benefits in terms of capital and marketing; a state of preparedness must be achieved in terms of the skills, technology and knowledge necessary to compete at the global level.

(2) Develop and promote Thailand as a centre for trade in goods and services in the region as well as a centre for international exhibitions.

(3) Promote e-commerce to create opportunities for entrepreneurs in accessing the global market by expeditiously pushing forward measures and legislation essential for the conduct of e-commerce.

(4) Accelerate measures to improve the administrative efficiency of the agencies concerned, both within and outside the country, in order that they may carry out their duties in supporting and promoting exports, whether in terms of marketing, providing information or helping resolve trade obstacles overseas.

### 1.2 Trade in Goods and Services

(1) Promote Thai businesses to be able to obtain technology and intellectual property from all sources, and develop them to create value added by enabling such businesses to diversify their production. Promote the establishment of a fund to provide the opportunity for Thai inventors and entrepreneurs to develop and utilize unique Thai know-how and indigenous intellectual property rights with full treaty protection.

(2) Support small- and medium-sized retail businesses to be able to compete and adapt themselves to withstand the impact of liberalization of trade in services.

(3) Institute zoning measures and relevant regulations for new large retail businesses.

(4) Promote consumer protection and an effective process of informing and servicing the public and ensuring better quality of services and products for consumers equitably. Revise and amend laws as well as institute measures for the protection of consumers with a view to ensuring justice for consumers as well as improving the country's products and services.

### 1.3 International Economics

(1) Support free trade in the international arena, taking into full consideration the level of preparedness and national interests of the country as well as the interests of domestic entrepreneurs.

Push for the amendment and revision of laws that pose an obstacle to the Thai private sector in international trade competition.

(2) Emphasize a proactive role in the international trade and economic arena. Push for the holding of negotiations in the international arena, based on the principles of justice and bearing in mind the interests and limitations of developing countries.

(3) Support and advance the free trade policy of the ASEAN Free Trade Area. Promote trade and investment with neighbouring countries as well as border trade. Promote the development of Thailand into a base for the production of goods and the provision of services in the region.

(4) Promote and support entrepreneurs from the private sector to play a part in providing trade and investment data as well as in analysing the possible impact brought about by international trade and investment regulations. This would be of benefit in setting the directions and strategy of Thai foreign policy as well as international trade and investment negotiations.

Other policies related to foreign economic policy could be found in the following sections:

### **Part 3: Increasing the Competitiveness of the Agricultural Sector in the World Market**

(1) Support the creation of new value added by processing agricultural produce. Develop the quality, standards, forms, and packaging of agricultural and agro-industrial goods.

(2) Develop Thailand as a centre for the production of organic agricultural products. Promote the registration of patents involving

agricultural production in every area as preparation for future liberalization in trade of agricultural products.

(3) Improve quality controls, standards and safety of agricultural products, both imports and exports. Support the development of biotechnology to improve productivity, quality and standard that are internationally recognized and market tested.

(4) Promote coastal fishing, aqua-culture and marine farming as well as fishing beyond territorial waters based on bilateral cooperation with neighbouring countries, developing a strong national fishing fleet, supporting the cold storage industry, and promoting the processing of fishery goods. Conservation and protection of natural marine resources and the ecology of the seas is a primary policy.

## **2. Communications Policy**

(1) Promote the development of infrastructure for a communications and transport network, which will serve as the basis for improving production, creating employment, and creating income.

(2) Modernize the telecommunications system and enable it to reach all parts of the country for the benefit of receiving and sending information and knowledge to the people, with linkages to other countries, and lay the foundation for the liberalization of the telecommunications business.

(3) Improve and develop the mass transit system as well as the domestic communications network, linking the two together efficiently, conveniently, swiftly and safely.

(4) Promote cooperation in building a transport and communications network linking Thailand with her neighbours, with a view to making Thailand the centre for land transport in the region, and assist in economic development and enhancing the quality of life of the people.

(5) Promote the development of the merchant marine in a systematic and earnest manner in order to support the country's export sector. Promote the establishment of a Thai merchant marine fleet and related industries. Ensure that the development, construction and management of deep seaports are adequate and of a good standard.

(6) Forge closer cooperation with neighbouring countries with a view to protecting the right, freedom and safety of navigation through the seas in neighbouring countries.

(7) Develop the quality and improve the efficiency of air transport services to keep pace with the needs of customers, tourism promotion, and economic growth. Ensure that Thailand will remain the central hub of air transport in the Southeast Asian region.





## **17. A REFLECTION ON THAILAND-AUSTRALIA FREE TRADE AGREEMENT (TAFTA): A VIEW FROM THAILAND\***

**By Medhi Krongkaew\*\***

### **1. The Beginning and Rationale**

It has been more than a year since Thailand and Australia signed an agreement establishing a bilateral free trade relation between themselves. When this Thailand-Australia Free Trade Agreement (TAFTA) was signed in Canberra in early July 2004 by the Trade Ministers of the two countries, witnessed by the Thai and Australian Prime Ministers, it had created something of a fanfare in both countries because, for Thailand, it was the first FTA that Thailand had signed with an advanced industrial country, and for Australia, it was the first FTA that Australia had signed with a major developing country in East Asia. But more than this public relations spectacle, TAFTA is also favourably regarded as a commendable FTA for its comprehensiveness and the large amount of goodwill that has been injected into it to make it possible quickly for the expected benefits from both sides.

At least on the Thai side, the initiative to enter into an FTA with Australia can be looked upon as a part of a larger international trade strategies of Thailand, especially under the new government of Dr. Thaksin Shinawatra who came into power for the first time in early 2001. While it is true that FTA was not specifically mentioned in the overall policy of Thaksin's government in early 2001, once the positions

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\* Paper presented at the Thailand Update 2005 Conference, organised by the National Thai Studies Center, Australian National University, in Canberra, Australia, 29 September 2005.

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of the US and Japan had changed on this (to support bilateral FTAs alongside their traditional support of multilateral trade negotiations à la WTO), Dr. Thaksin had seized on the opportunity to move ahead of many of his fellow regional leaders. There are many reasons for these new strategies of Dr. Thaksin, but it suffices to say that he had combined the need for the Thai economy to be efficient in an increasingly competitive, globalised world anyway, with an opportunity to expand Thai markets quickly through an early bilateral FTA. And to do this quickly, he is willing to be pragmatic and would go for long-term gains and rely basically on mutual goodwill of trading partners than getting bogged down in lengthy and tenacious trade negotiations. It can be said that this Thailand-Australia FTA fits well with the positions of Dr. Thaksin above.<sup>1</sup>

It appears that trade ministers of Thailand and Australia had met during the Doha Round of WTO Ministerial Meeting in Doha, Qatar in November 2001 to agree on the joint scoping study on the feasibility and desirability of a Thailand-Australia FTA. When the answers from this joint study were positive, negotiations between the two countries started in May 2002. Overall general agreement was reached in October 2003, and preparation was being made for the signing of this Thailand-Australia FTA tentatively set in May 2004. Eventually, Dr. Thaksin brought his Trade Minister (and many other cabinet members) with him to Canberra on 4 July 2004, and the next day, 5 July 2004, the agreement was signed at the Australian Parliament House. The actual FTA activities came into effect on 1 January 2005.

## 2. The Course and Outcomes

While Dr. Thaksin could have agreed on the establishment of TAFTA based simply on his business instinct and experience, he had made certain that a more rigorous study on the pros and cons of TAFTA

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<sup>1</sup> For more details on the rationale of Thailand's bilateral FTA strategies see Medhi (2001), and (2004).

be carried out before the conclusion of the deal. A team of researchers from the Faculty of Economics at Chulalongkorn University was contracted to conduct such a study. The results of the study are generally supportive of the establishment of such FTA. However, the study report mentions that these joint or mutual benefits are unlikely to be large because the existing trade between the two countries was not large, and the average tariff rates of both countries were not high to begin with. But it is expected that the long-term effect of such an FTA would be an increase in the volume of trade between the two countries. In terms of the increase in GDP as a result of this FTA, the Thai GDP is expected to increase by 0.034 percentage point, with the increase in the absolute amount of social welfare totaling 33.9 million US dollars in Thailand. As for Australia, the increase in GDP is estimated at 0.003 percentage point, and the absolute amount of social welfare totaling 123.3 million US dollars. As for specific items, Thailand is expected to benefit from the increase in the exports of textile products and passenger cars and parts, but, in return, will face larger imports from Australia on beef and other animal and agricultural products, and minerals.<sup>2</sup>

Admittedly, the largest and probably the most important aspect of TAFTA in the current situation is freer trade in goods between Thailand and Australia. From Thailand, there was an offer of zero tariff rates on about 49 per cent of the total trading items most of which are raw materials that Thailand is not able to produce locally. For the remaining 51 per cent of the trading items including such sensitive items as fruits and vegetables, plastics, papers, irons and steels, Thailand will continuously reduce their tariff rates to zero by the year 2010. The most sensitive trading items are milk and milk products which will not be fully liberalised until 25 years later. As for Australia, its offer of zero tariff rates includes about 83 per cent of trading items, with the remaining items zero-rated by 2010 or 2015. Among the most sensitive trading items are

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<sup>2</sup> For a more detailed summary of the outcomes of the study by the Chulalongkorn University Study Team, see Annex 1 at the end of this paper.

apparels and footwear, leather products, plastics, automobile parts, but all will be zero-rated by 2010.

But as mentioned earlier, a unique characteristic of TAFTA is its comprehensiveness that go beyond trade in goods. In fact, as the following list of coverage will attest, TAFTA covers all the aspects of modern trade and economic cooperation. The following items are covered under 1909 articles of the agreement:

- Trade in Goods
- Customs Procedures
- Rules of Origin
- Safeguards
- Sanitary and Phytosanitary Measures and Food Standards
- Industrial Technical Barriers to Trade
- Trade in Services
- Investment
- Movement of Natural Persons
- Electronic Commerce
- Competition Policy
- Intellectual Property
- Transparent Administration of Laws and Regulations
- Government Procurement
- General Exceptions
- Institutional Provisions
- Consultations and Dispute Settlement

Of course, not all aspects of the above activities receive the same level of attention and emphasis. For example, the movement of natural persons still limits to jobs in selected economic subsectors, and other barrier to entry conditions in each respective country still apply. More on this later in the next section.

Since 1 January 2005 when TAFTA came into effect, the Thai government (through the Department of International Trade Negotiations, Ministry of Commerce) has been keeping an eye on the outcomes of almost one year of TAFTA. Tables 1 to 5 show some results of the changes in trade in goods between Thailand and Australia between January to October 2005.<sup>3</sup>

The general foreign trade patterns between Thailand and Australia is shown in Table 1. In this table, it may be seen that in the year 2000, five years before TAFTA, the total trade value between Thailand and Australia amounted to only 381.2 million US dollars, but the value of total trade started to jump from 2001 onward. During the 10 months of 2005 (January to October), the value of total trade of 5,457.1 million US dollars is even larger than the total trade value of 2004 of 4,666.3 million US dollars. In terms of the growth rate of this total trade value, the change in the last 10 months of 2005 was very high at 45.54 per cent. It is very obvious that TAFTA has been instrumental in bringing about a very rapid increase in trade in goods between the two countries. However, since the share of Thai-Australian trade is still very small as a percentage of the total trade of both countries, the prospects for even higher trade between the two countries are even higher.

Table 2 shows the ten largest export items to each other. For exports of Thailand to Australia in 2004, the largest items are motor vehicles, components and parts, with the total value of exports of about 752 million US dollars, and with the share of about 30.47 per cent. The second largest items are air conditioners and components but at the share of only 9.35 per cent. The remainders of the list consist of canned and processed seafood, gems and jewellery, plastics, and so on. The imports of Thailand from Australia in 2004 was slightly larger than its exports,

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<sup>3</sup> The statistical information contained in these five tables was obtained from a Powerpoint presentation of Ms. Chutima Bunyaprapassorn, Senior Advisor to the Department of International Trade Negotiations at the Seminar on "Evaluating One Year of TAFTA: Who Gains, Who Loses?" organised by the Department of International Trade Negotiations in Bangkok, 30 November 2005.

with the two largest items as minerals and other metals (24.41 per cent), and silver and gold (22.75 per cent)

Table 3 further expands the change in the trade of ten largest goods items between Thailand and Australia during the 10 months between January to October in 2004 and 2005. It is possible to interpret this change as resulting from a natural increase in the trade between the two countries, but of course the specific contributions of TAFTA cannot be ruled out. It is true that during these 10 months, the balance of trade between Thailand and Australia is in favour of Australia, but on closer investigation, the Thai trade deficit came as a result of the exports of two main items from Australia: gold and crude oil. What is more important is the fact that the rate of growth of total trade between the two countries has been very high during January to October this year (2005) compared with the similar period last year (2004). In short, the outcomes of increased trade between Thailand and Australia during the first 10 months of this year have seen more positive growth than negative growth.

Tables 4 and 5 give some details of the change in trading volume and value between Thailand and Australia. It was pointed out earlier that Australia has enjoyed a small trade surplus over Thailand during the first 10 months of TAFTA but this trade surplus should not be regarded as significant because it involved two large import items (gold and crude oil) from Australia during the time of energy instability. More important is the overall increase in the value of exports of each country to each other compared to the situation before TAFTA. The ways in which each country has handled its tariff reduction and protection of sensitive products are also more important. It is quite obvious that both countries have been very mindful of the domestic situations concerning trade in certain items and tried to accommodate each other's positions in a spirit of good will and cooperation. For example, Australia allows Thailand up to 20 years to completely liberalise its milk trade, whereas Thailand allows unrestrained imports of gold, oil and other minerals from Australia.

### 3. Problems and Prospects

While the prospects of trade in goods are bright for both Thailand and Australia under TAFTA, they are not without problems. It is well known that Australia is very fastidious about the sanitary and phytosanitary measures against most imports of food and agricultural products into Australia, and these measures have affected Thai exports to Australia in the past. Under TAFTA, these measures have been relaxed somewhat to facilitate larger imports from Thailand.<sup>4</sup> Thailand is also apprehensive on the prospects of the use of anti-dumping measures from Australia.

Perhaps a more difficult aspect of trade liberalisation between the two countries is in the area of trade in services and investment. On the whole, both countries have agreed to be as comprehensive as possible on their coverage of market access on all trade in services and investment issues. Both sides have agreed to open negotiations and phase in ready service sectors every 3 years, with full protective measures against injuries on investment on both sides. At the moment, Thailand is still not ready to open up its 39 occupations reserved for Thai nationals, and still carefully enforces its alien occupations law. But this should not affect the interest of Australia too much as the current regulations regarding high level business and managerial positions are sufficiently liberal. Australia also allows Thai nationals to work in all areas in Australia except in news media and broadcasting, international air transport, and airport management, which are not the areas that Thailand has indigenous expertise anyway. There are many areas in trade in services and other trading issues (mutual recognitions, standards and conformance) that await further deliberations and negotiations between the two sides (in education, health, tourism, and so on). The prospects for the success on these are good as long as both sides continue to work together in the spirit of genuine cooperation and good will.

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<sup>4</sup> Although it is doubtful whether Thailand can benefit a great deal from this category of exports into Australia, as Australia has ample supply of fruits and other agricultural products domestically.

#### **4. Summary and Concluding Remark**

In this short paper, I have tried to describe the origin and development of bilateral trade liberalisation initiatives between Thailand and Australia which eventually resulted in the establishment of Thailand-Australia Free Trade Agreement (TAFTA) in 2004. Against the backdrop of the pros and cons of bilateral FTA and multilateral trading arrangements in the WTO fashion, it must be said that TAFTA succeeds quite well in achieving what it has intended to do. First, both countries aim at more long-term benefits of larger or increased trade than short-term gains through trade surplus or deficit. Second, TAFTA is comprehensive covering practically all aspects of trade in goods, trade in services, investment and other trade facilitation issues. Third, the potentials for future opening up are large and meaningful which can contribute to even larger social welfare gains to the people of the two countries.

Despite the relatively smaller base of previous trading relations between Thailand and Australia prior to the establishment of the current TAFTA, the development of trading relations between the two countries has been exemplary. Most Thai people have regarded Australians as fair-minded and sincere, and increasingly look upon Australia as a place or destination for further overseas studies. The current FTA could bring about even closer people-to-people contacts, in addition to increased trade that will naturally ensue from this current agreement.



**Table 1:** Thai-Australian Trade

Category	Value (in USD million)					Growth rate (%)					
	2000	2001	2002	2003	2004	2005 (Jan.-Oct.)	2001	2002	2003	2004	2005 (Jan.-Oct.)
Value of trade	381.2	2,708.0	3,135.6	3,728.0	4,666.3	5,457.1	-3.30	15.79	18.89	25.17	45.54
Exports	184.6	1,361.7	1,641.7	2,160.0	2,468.1	2,638.0	-16.77	20.56	31.57	14.26	29.32
Imports	196.6	1,346.3	1,493.8	1,568.0	2,198.1	2,819.1	15.62	10.96	4.97	40.19	64.89
Trade balance	-12.0	15.4	147.9	592.0	270.0	181.0					

**Source:** Adapted from Chutima (2005).

**Table 2:** Major Respective Exports of Thailand and Australia to Each Other in 2004

Exports of Thailand to Australia		Value (USD million)	Share (%)	Exports of Australia to Thailand		Value(USD million)	Share (%)
1.	Motor vehicles, components and parts	752.0	30.47	1.	Minerals, ores and other metals	536.6	24.41
2.	Air conditioners and components	230.7	9.35	2.	Gemstones, silver and gold	500.2	22.75
3.	Frozen and processed seafood	122.6	4.97	3.	Iron, steel and steel products	212.6	9.67
4.	Iron, steel and steel products	103.3	4.19	4.	Crude oil	187.4	8.53
5.	Gems and jewellery	95.0	3.85	5.	Yarn and fiber	161.3	7.34
6.	Crude oil	79.6	3.23	6.	Crops and crop products	100.6	4.58
7.	Plastic products	72.6	2.94	7.	Animals and animal products	71.6	3.26
8.	Plastic pellets	58.6	2.37	8.	Chemicals	69.2	3.15
9.	Computers, components and parts	56.4	2.29	9.	Machineries and components	59.9	2.71
10.	Rubber products	51.5	2.09	10.	Milk and milk products	50.8	2.31

**Source:** Adapted from Chutima (2005)

**Table 3:** Recent Trade between Thailand and Australia

	(Jan.-Oct. 04)		(Jan.-Oct. 05)		% change
	Value (USD million)	Share (%)	Value (USD million)	Share (%)	
Exports of Thailand to Australia					
1. Motor vehicles, components and parts	637.5	31.25	1081.7	41.00	69.69
2. Air conditioners and components	171.9	8.43	164.4	6.23	-4.36
3. Frozen and processed seafood	101.2	4.96	117.8	4.47	16.40
4. Iron, steel and steel products	81.8	4.01	164.4	6.23	100.98
5. Gems and jewellery	78.9	3.87	45.8	1.74	-41.95
6. Crude oil	79.6	3.90	51.6	1.96	-35.18
7. Plastic products	58.3	2.86	65.5	2.48	12.35
8. Plastic pellets	46.6	2.28	47.9	1.82	2.79
9. Computers, components and parts	42.5	2.08	71.1	2.70	67.29
10. Rubber products	43.6	2.14	47.3	1.79	8.49
Exports of Australia to Thailand					
1. Minerals, ores and other metals	436.8	25.55	631.0	22.38	44.46
2. Gemstones, silver and gold	335.9	19.65	848.5	30.10	152.60
3. Iron, steel and steel products	168.9	9.88	179.4	6.36	6.22
4. Crude oil	116.8	6.83	473.0	16.78	304.97
5. Yarn and fiber	146.4	8.56	131.8	4.68	-9.97
6. Crops and crop products	90.1	5.27	123.9	4.40	37.51
7. Animals and animal products	58.7	3.43	47.8	1.70	-18.57
8. Chemicals	60.6	3.54	50.3	1.78	-17.00
9. Machineries and components	51.9	3.04	55.8	1.98	7.51
10. Milk and milk products	39.8	2.33	48.9	1.73	22.86

**Source:** Adapted from Chutima (2005).

**Table 4:** Trading Items with Projected Gains to Thailand

Product Items	Original Tariff	TAFTA Tariff	2004 Value of Exports to Australia (USD million)	Jan.-Oct. 2004 Value of Exports to Australia (USD million)	Jan.-Oct. 2005 Value of Exports to Australia (USD million)
Fresh and Dried Fruits	0-5%	0%	5.81	3.54	4.03
Canned Tuna	5%	2.5%; 0% (2007)	75.30	63.11	75.34
Canned Pineapple and Juice	5%	0%	4.40	3.58	4.45
Prepared Food	0-5%	0%	16.90	13.65	14.59
Pick-Up Trucks	0.50%	0%	256.73	218.25	286.93
Small Passenger Cars	0-15%	0%	86.50	81.14	204.09
Electrical Appliances	0-10%	0%; 0% (2010)	282.82	213.46	217.28
Chemicals and Plastics	0-10%	1/2 immediately; 0% (2008, 2010, 2015)	125.87	105.53	120.11
Steel and Steel Products	0-10%	0% (2010)	104.50	83.23	165.49
Textiles and Apparels	0-25%	0% (2010, 2015)	39.60	37.55	37.51
Gems and Jewellery	0-5%	0%	95.16	78.88	45.47
Papers	0-5%	0%	31.70	25.33	37.94
Automobile Tyres	0-10%	0%; 0% (2010)	24.62	20.80	23.38
Leather Products	0-25%	0%; 0% (2010, 2015)	7.79	6.48	5.00
Total Export Value			1,157.79	954.53	1,241.61

**Source:** Adapted from Chutima (2005)

**Table 5:** Trading Items with Projected Gains to Australia

Product Items	Original Tariff	TAFTA Tariff	2004 Value of import to Australia (USD million)	Jan.-Oct. 2004 Value of import to Australia (USD million)	Jan.-Oct. 2005 Value of import to Australia (USD million)
Grains	0-10%	0%; 0% (2010)	75.60	68.92	88.06
Fuels	0-10%	0%; 0% (2010)	194.82	123.34	479.76
Copper Cathodes	0-10%	0%; 0% (2010)	147.26	120.57	184.48
Milk and Milk Products	0-25%	0% (2015, 2025)	37.00	29.11	38.92
Butter	33%	0%(2025)	13.70	11.00	10.41
Plastics	1-30%	0%; 0% (2007-2010)	15.10	13.87	13.06
Beef	31-51%	40% (2005); 0% (2020)	2.40	1.88	2.14
Large Passenger Cars	80%	0%; 0% (2010)	1.00	0.48	0.68
Animal Feeds	9.1%	0% (2010)	7.30	5.57	7.16
Zinc	5-20%	0%; 0% (2007-2010)	6.61	5.93	13.05
Wine	50-60%	40%; 0% (2020)	3.30	2.38	3.19
Iron and Steel	0-20%	0% and various to 2015	222.72	178.85	193.68
Gold	0%	0%	502.40	334.79	836.00
Total Import Value			1,229.31	896.69	1,870.59

**Source:** Adapted from Chutima(2005)

**ANNEX 1: SUMMARY OF THE ASSESSMENT OF BILATERAL THAILAND-AUSTRALIA FREE TRADE AGREEMENT (TAFTA), BY THE CHULALONGKORN UNIVERSITY STUDY TEAM**

This joint scoping study assesses the impact of a bilateral free trade agreement between Australia and Thailand. It also addresses possibilities for closer cooperation in a number of other areas affecting their mutual economic relationship.

The overall conclusion of the study is that a free trade agreement would bring significant economic benefits to both countries. The results from the Chula Economic Model suggest that such an agreement would boost Australia's GDP by US\$6.6 billion and Thailand's GDP by US\$25.2 billion.<sup>5</sup> Trade and investment between Australia and Thailand would expand substantially. A free trade agreement could also provide a framework for further cooperation on a wide range of issues, ranging from e-commerce to competition policy. The gains from all of these changes would clearly outweigh any adjustment costs which may be incurred.

A free trade agreement would build on a relationship between the two countries which is already close. Bilateral trade in goods is expected around US\$2.6 billion per year. Thailand and Australia have already cooperated closely in the World Trade Organization (WTO), Asia Pacific Economic Cooperation (APEC) and the AFTA-CER arrangement which links Australia, New Zealand and ASEAN economies. They have worked together closely on issues such as regional security, for example through close diplomatic and military cooperation on East Timor. There are strong people-to-people links and close educational ties.

Although both countries have undergone trade liberalisation over the past decade, there are still important impediments to trade and investment. Tariff barriers are significant in some sectors, for example, for passenger cars, textile products, and footwear for Australia, and

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<sup>5</sup> In net present value terms, over 20 years. Assumes immediate implementation.

motor vehicles and a range of agricultural and manufacturing products for Thailand. There are also significant barriers to services trade. Investment in both directions is low, with Australian investment in Thailand only a fraction of its investment in some other East Asian economies.

Under an FTA, Australian exports to Thailand which could be expected to increase would include dairy and other agricultural products, pharmaceuticals, aluminum and large passenger cars and components. Thailand would have good export expansion prospects in areas such as small motor vehicles (both passenger and commercial), plastic products, iron and steel products, pulp and paper and other agricultural products. The gains from liberalising the services sector are also likely to be significant. Australian firms would stand to benefit from being able to operate more freely in the Thai market – areas of particular potential could include banking and professional services. For Thailand, there would be an appreciable impetus to investment, growth and competitiveness from a more open services sector. In banking, stronger representation from foreign firms appears to be already strengthening this aspect of the Thai economy, with improvements in such areas as accounting, auditing, customer service and risk management. These gains would develop further under the more open access arrangements which could be part of an FTA with Australia. There would be similar benefits in areas like insurance (where Thai firms would gain added access to capital, management expertise and technology) and professional services.

An FTA would also give each country access to cheaper inputs and expertise, thus helping each to penetrate third markets.

A free trade agreement could, depending on the provisions it contained, lead to an increase in foreign direct investment into both countries, for example, if restrictions which currently exist on foreign investment were reduced or if the FTA made joint ventures between Australian and Thai firms easier to develop. In addition to any stimulus to bilateral investment, an FTA could stimulate the interest of investors from third countries, who would see increased opportunities flowing from the creation of a larger market. Also, greater efficiencies in the Thai

services sector noted above should act as a stimulus to further foreign investment.

The economic modeling carried out by an independent consultant (using the APG-Cubed Model) suggests that an FTA would lead to increases in real consumption of US\$4.9 billion for Australia and US\$14.3 billion for Thailand.<sup>6</sup> GDP gains, as mentioned earlier, would be US\$6.6 billion for Australia and \$US25.2 billion for Thailand. These are conservative estimates, which do not take into account a number of potential gains (for example, the gains from greater cooperation in areas like standards and conformance and e-commerce). Output in each of the six sectors covered by the model – energy, mining, agriculture, durable manufacturing, non-durable manufacturing and services – is expected to expand under an FTA. Importantly, the gains to the free trade area would be bigger the faster liberalisation proceeds, even after taking into account adjustment costs. Liberalisation “overnight” would increase the gains to Thailand by almost US\$10 billion compared with the alternative of liberalisation over 5 years for Australia and 10 years for Thailand.

Case studies on particular sectors confirm substantial gains from an FTA. In agriculture, freeing up trade – mainly through lower tariffs – would bring substantial improvements in market access for Australian exporters. Thailand would gain improved access to a market of 19 million consumers with a disposable income equivalent to the highest strata of Thai food consumers. Thai consumers would benefit from cheaper food, while the Thai food processing industry would gain cheaper inputs (which would lead to improved competitiveness and increased exports). Australian investment in Thai agriculture could increase.

In the automobile sector, gains would be expected from closer integration of the Australian and Thai markets. The complementary nature of the two vehicle industries (with Thailand focusing on small cars and light commercial vehicles and Australia on larger cars) would encourage closer integration, leading to significant economies of scale.

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<sup>6</sup> In net present value terms, over 20 years.



There would also be a positive impact on component manufacturers in both countries, with Thailand expected to increase its share of the Australian market in existing product lines such as tyres, radio broadcast receivers and lighting/signaling equipment, and to develop new business in other areas. Australian suppliers of products such as engines, transmissions, brakes, mirrors, lighting equipment, wheels and seat belts would have greater potential in the Thai market. For both motor vehicles and components, there would be greater two-way flows of investment, as well as increased investment from third countries.

In textiles and clothing, a free trade agreement would provide new opportunities for Thai exports to Australia. This would intensify business links between Australian clothing wholesalers and retailers and Thai textile and clothing makers, and would provide new opportunities for growth in Thailand's clothing exports. While the gains to Australia would be smaller than for Thailand, an FTA would strengthen demand for Australian raw products such as wool and cotton, and provide greater access in the Thai market for niche, lifestyle products (such as swimwear) as well as more general exports like carpets. It could also provide Australian industry with new opportunities for supplying related services (such as fashion design) to the Thai market.

In education and tourism, there are already strong links between Australia and Thailand, with Australia one of the main destinations for Thai students. Both countries would benefit from an intensification of these links. An FTA could encourage Australian educational institutions to develop further their presence in Thailand, including by removing impediments to establishing and operating there. In tourism, it would provide a framework for increasing awareness of both countries as tourism destinations, promoting two-way movement of tourists and addressing key challenges facing tourism over the decade. In health, there could be possibilities for expanded trade in services provided by health-related service providers such as nurses, physiotherapists and para-medical personnel.

On expected tougher competition, the study found that the adjustment costs associated with an FTA are likely to be modest, given that the value of international trade between the two countries is only around 2 per cent of the total international trade of each and that the two economies are relatively complementary and have different specialisations. In agriculture, for example, differing specialisations are illustrated by grains (rice versus wheat), seafood (processed versus fresh) and horticulture (tropical versus temperate). It is possible that the adjustment costs, while small, would be borne more heavily by Thailand than Australia.

The precise impact of a free trade agreement on merchandise trade flows would depend on rules of origin implemented as part of the agreement. Thailand already has in place a rules of origin regime though its arrangement with the ASEAN Free Trade Area, while Australia applies a regime in its trade with New Zealand under the Closer Economic Relations Trade Agreement (CER). The content of rules of origin would need to be addressed in FTA negotiations.

A free trade agreement would provide a framework in which to promote cooperation on other issues which can have an impact on the economic relationship. For example, differing standards and procedures for assessing conformity to them can be significant obstacles to trade. It would be possible for Australia and Thailand to undertake, within the framework of an FTA, further joint efforts towards an objective of harmonisation or equivalence of standards, as well as strengthening mutual recognition of procedures for assessing conformity to them.

Electronic commerce (including business-to-business and business-to-consumer) is likely to assume greater importance over the next decade. Australia and Thailand could work within the framework of an FTA to develop and apply core principles which would minimise the regulatory burden on electronic commerce and allow industry-led development of it, with the aim of allowing Internet-based trade to expand. Technology transfer is another issue where there would be advantages from closer cooperation and an FTA could act as a catalyst for this.

Other issues where there would be benefits from greater cooperation include competition policy, anti-dumping, quarantine, government procurement, intellectual property, the movement of people, cooperation in the finance sector, transportation, including air services, and joint ventures. In many of these areas, there is already a high level of cooperation.

Among these areas there are two – quarantine and anti-dumping – which have caused difficulties in the bilateral trade relationship. On quarantine, the conservative measures Australia has adopted affect a number of Thailand's agricultural exports. With regard to anti-dumping, Australia's application of anti-dumping measures against products believed dumped, has led to a loss of market share by Thailand. To strengthen market perceptions that members are willing to cooperate in all trade issues, bilateral mechanisms and efforts to resolve these concerns could be addressed in any FTA negotiations.

The study concludes that, in light of the potential benefits noted above, the Governments of Thailand and Australia should give close consideration to entering into negotiations to establish an FTA. Australia and Thailand are at different stages of economic development, would bear different adjustment costs and gain different benefits from an FTA – all these factors should be taken into account in any negotiations. The study also suggests that this FTA should be comprehensive and underpin both countries' support for the WTO multilateral trading system. It should also be consistent with APEC's goals and principles (and specifically the Bogor goal of free and open trade and investment for industrialised economies by 2010 and developing economies by 2020). The more comprehensive an FTA, the greater the gains that can be expected from it.

The study also recommends that this FTA addresses a range of issues extending beyond trade and investment liberalisation in order to maximise the gains from integration. These include standards and conformance, quarantine procedures, anti-dumping, e-commerce, competition policy, government procurement, intellectual property, people movement, joint ventures, transport and technology transfer.

Source: Adapted from the Executive Summary of the Joint Scoping Study of the assessment of the bilateral free trade agreement between Thailand and Australia by the Chulalongkorn University Study Team, Faculty of Economics, Chulalongkorn University, June 2004, available at [http://www.thaifta.com/study\\_au.html](http://www.thaifta.com/study_au.html)

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## **18. CONCLUDING CHAPTER THAILAND AND ITS CURRENT STANDING IN EAST AND SOUTHEAST ASIA**

### **1. Introduction**

Most of the papers in this volume were written during the period of ten years between 1996 and 2005. This was the period that I, the author of this book, was actively engaged in various activities related to East Asian and Pacific affairs. In 1995 I was appointed Director of the Institute of East Asian Studies (IEAS), Thammasat University, after returning from a 4-year stint as Senior Research Fellow at the Research School of Pacific and Asian Studies (RSPAS), Australian National University (ANU), and began my official duties as administrator of this research organisation specialising in East Asian studies, especially Japan, China, and Korea for almost two terms (five and a half years) until the year 2000. During these periods at Thammasat, I was able to win a competition from the Ministry of University Affairs of the Thai government to set up (national) APEC Study Center for Thailand at Thammasat University, and I was appointed the Founding Director of this Center. In 1997, Thailand suffered its first major international economic crisis which resulted in concerted financial assistance from Asia and Pacific governments and organisations as Japan, the US, and the International Monetary Fund. In 1998, I also received a three-month, Fulbright Fellowship to do research at the Graduate School of Pacific and International Studies, University of California at San Diego, and cooperated with Professor Richard E. Feinberg, Director of the APEC Study Center of this university, to set up the APEC International Assessment Network (APIAN), a collective, independent, think-tank among APEC Study Centers that track and assess the designs and executions of selected APEC initiatives.

In 2000, I resigned from directorship at IEAS to accept a research fellowship at the Center for Southeast Asian Studies at Kyoto University, to work on APEC issues. In 2000 also, the Thai government, through its Ministry of Foreign Affairs, nominated me as candidate for the Chair of APEC SOM Subcommittee on Economic and Technical Cooperation (ECOTECH). I won and served in this official post in the APEC organisation for two years, and was very active in pursuing the APEC ECOTECH activities (as shown in Part II of this volume) until my 2-year term was over after the APEC Summit in Shanghai at the end of 2001. For the next two years, 2002 and 2003, I was appointed the first Chair of Community Building Forum of the Pacific Economic Cooperation Council (PECC) whose secretariat is based in Singapore. Only when the Ministry of Foreign Affairs ended its policy to support a non-MOFA official to work in these regional organisations in 2004, I left my 10 years' concentrated roles in East Asian and Pacific activities and returned to my normal teaching and research activities at the Graduate School of Economic Development at NIDA.

From this short introduction above, it may be seen that my experiences between 1996 and 2005 had helped shape my visions and perspectives concerning the role of Thailand in the East Asian and Pacific affairs. In this Concluding Chapter, I will be able to summarise the ideas and objectives behind chapters in Part I, II, and III of this volume with a focus on how I perceive the role of Thailand in the East Asia and Pacific context, that is how Thailand behaved and performed as a member of this international community, and how Thailand exerted its influence and positions on matters related to APEC, PECC, ASEAN, and multilateral cooperation such as in the World Trade Organisation (WTO) operational structures as well as bilateral cooperation in the form of free trade agreements (FTAs). This will be done in Section 2.

Once this is done, it should be clear where and how Thailand had stood for in its role a member of East Asian and Pacific community. What has happened in Thailand and the world since 2006 have redefined the relative roles of Thailand and its standing especially in its East

and Southeast Asian areas such that the status of, and the perception concerning, Thailand has changed quite a bit. It is, therefore, appropriate that I take a look at present-day Thailand and try to compare its various socio-economic characteristics with other comparable countries in East and Southeast Asia. Several socio-economic, political, and juridical indicators will be selected to represent these comparative standings of Thailand. This is done in Section 3.

Finally, Section 4 offers my concluding view on Thailand at its critical juncture to move forward politically in the aftermath of a military intervention that turned the country into an undemocratic political and economic system. Certainly this is not the end of the road yet, but the prognosis in this volume should be useful in understanding and evaluating future occurrence and events in Thailand.

## **2. The Ideas Behind the Volume**

This volume begins with Chapters 1 and 2 in Part I that touch on two aspects related to the Thai economic crisis that broke in 1997. One is on the role of Japan and the US in helping Thailand cope with the crisis, and the other is the economic and social consequences of the crisis in Thailand as well as in other countries in the region, especially in Indonesia and South Korea. In the first chapter, both Japan and the US had contributed greatly to the economic development of Thailand: the US in providing the capitalistic development framework, and Japan with development funding through foreign direct investment. The contributions from these two economic superpowers had helped Thailand attain the status of NIE in mid-1980s. However, several local institutions were not developed enough to cope with rapid economic liberalisation in and around Thailand leading to abuses in the systems such as over-borrowing overseas, too much short-term debts, over-spending in non-productive activities, lack of adequate regulations and supervision in the financial sector, conflicting exchange rate and currency policies, lack of economic leadership, and so on.

During the crisis, both Japan and the US had proven once again economic benefactors in their coming to the rescue of Thailand. But this time, Japan had shown a much more involved and devoted assistance than the US. It is true that Japan had a greater economic stake in Thailand and therefore is more inclined to protect its economic interests and position, but the manner in which the Japanese help came about was genuine and sincere, and went beyond a mere economic calculation of losses and gains. On a brighter side, this crisis has taught Thailand to keep its cordial relations with old friends and partners who can come to help in time of need.

The story about how Thailand, Indonesia and South Korea, coped with their problems as a result of the crisis is told in some comparative details in Chapter 2. Here, it was obvious that the onset of the crisis came from a similar financial mismanagement and lack of prudential integrity. So, once the confidence in the financial viability of the country is broken following a series of dismal economic performances, sudden capital outflows resulted in exchange rate disruptions and short-term financial operations. Although these are short-term effects, the impacts on economic production, prices, and employment can be very severe, as evidenced in these three countries. However, since all three countries relied on open-market systems as their economic frameworks, the ways out of the economic crisis are quick, with the governments providing necessary social safety nets functions. Under a more government-controlled economic management system, the recovery probably would not be as quick. A lesson is learned.

Part II deals specifically with the APEC issues, especially issues concerning the institutional and policy supports of the economic and technical cooperation in APEC. It is well known that APEC is an organisation that supports trade liberalisation and facilitation in the Asia Pacific region, and economic and technical cooperation is another function (or the third pillar in the 3-pillar analogy that support the working mechanisms of APEC) that was inserted into the APEC framework later. This had created both opportunities and threats in the eyes of some



APEC members. It was seen as opportunities because this ECOTHEC function could help APEC members attain their free trade liberalisation and facilitation (TILF) goals faster and more efficiently, but it is also seen as threats because attention might be diverted to areas outside the main focus of trade liberalisation and facilitation. As it so happened, I was a believer of the beneficent role of ECOTECH supporting the TILF function of APEC, as well as its own merits of transforming less-developed APEC members into more equal trading partners, and had received support from the Thai government to chair this ECOTECH Subcommittee for two years (in the year 2000 and 2001, and another two years in a similar function as Chair of Community Building Forum in PECC), I had a great (but difficult) time doing my job in this world organisation.

As can be seen (and read) from Chapter 3 to 8, I set up my own task of building up framework of a new ECOTECH understanding from its formative ideas in 1997 and its eventual establishment of the SOM Subcommittee on ECOTECH (ESC) in 1998. The main ideas were to convince all APEC members of the importance of ECOTECH activities and accept them as a worthy counterpart of TILF. Then I had to devise various schemes and inventions that show such an effect. Two notable subsequent events happened during my ESC chairmanship worth mentioning are the agreement to adopt human capacity building as the ECOTECH thematic issue starting from 2000, and the agreement and adoption of Individual Action Plan (IAP) as a means to implement this thematic ECOTECH activity from 2001 onward. Because the actions among APEC members are based on voluntarism and non-coercive consensus, any APEC member who is not cooperative, can wreck havoc to the whole initiative. To me, this was the most feared occurrence. Luckily, even the most outspoken member who opposed to the ECOTECH-IAP at first, had turned cooperative a year later. To me again, this was the achievement that I was very proud of, and it went a long way to prove my inner belief in the important three elements of APEC consisting of (1) the spirits of APEC where voluntary and unilateral trade liberalisation are basic institutional principle, (2) APEC's spiritualism which is

a belief in free trade system, and (3) APEC's Esprit de Corps which generate cooperation among members (See Chapter 7, How to Succeed in ECOTECH With(out) Really Trying).

After I left my active involvements with APEC in 2005, I have lost track of how ECOTECH has fared between 2005 and now (2017). On checking with the latest development of ECOTECH activities from APEC documents prepared for the 2017 APEC Summit in Danang, Vietnam in November 2017, I have discovered that after the change of the status of and the SOM ECOTECH Subcommittee to a committee level in 2002, it was changed again to SOM Steering Committee on ECOTECH (SCE) with an enhanced mandate to strengthen the prioritisation and effective implementation of ECOTECH activities by various APEC fora. The new structure and mandate of SCE is shown in Box 1.<sup>1</sup>

In Part III of this volume I continue to address either the position of Thailand in East Asian and international context or my own perception of Thailand as a market-based economy and a trusted member of world community. This is clear in Chapter 9 when I address the issue of how a new group of ASEAN members (the CLMV or Cambodia, Lao PDR, Myanmar, and Vietnam) could follow the economic philosophy and practice of Thailand. In Chapter 10, I further look at similar situations in the Greater Mekong Subregion which include countries or part of the country that lie along the Mekong River. In Chapter 11, I embark on the broad analysis of the origins of development in countries in East Asia. This was one of the most difficult papers that I have written in my professional career because I have to take into account more than ten countries with different histories and characteristics, and have to find

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<sup>1</sup> I must say that, while this new structure and mandate is an improvement over the situations in 2005 when I left APEC, the 'improvement' during the last 12 years does not seem to be too impressive. Probably this has gone to prove a point I was trying to make in my papers in this Part II that it is hard to reach an agreement in a consensus-based international organization like APEC. However, the fact that all leaders of APEC member economies came to the 2017 APEC Summit in Danang despite no newsworthy agreements, can be looked upon as an expression of interest and the attached importance from these world leaders.

some common grounds that can be used to understand these East Asian economic developments. My contribution of the importance of “turning points” of development, though experimental, should provide a basis for a future discussion and debate on the causes and patterns of economic development of many developing countries in the world. I end this Part III with a few more chapters on different forms of regional cooperation and free trade agreements (FTAs).

### **3. Thailand at Present—A Comparative Picture**

Twelve years on since the last paper in this volume was written in 2005, Thailand has changed a lot but I must say that it is the change for the worse. In 2005, I also wrote another paper entitled “The Thai Economy in 2005: Facing an Uncertain Future?” (See Medhi 2009) which I cast my doubt on the future of the Thai economic development. To me, 2005 was the year of the peak of power of Dr. Thaksin Shinawatra, the Thai Prime Minister whose party won the largest majority in the Thai history in the general election a year earlier, and he started to decline. Although his single party had an absolute majority in the parliament, his political success began to unravel in the form of economic scandals and political misconducts that substantially eroded his authority and power to govern. The last straw came in early 2006 when he sold the entire securities holding of his company to a state company in Singapore and using a loophole in the Thai tax system to avoid paying any income tax. Political conflicts that ensued resulted in a dissolution of the parliament and a new general election which ended in failure and the country became stuck in court cases and legal litigations. The chaos and turmoil led to a military intervention in September 2006, and his government was toppled and replaced by an interim ad hoc military-backed civilian government. A new constitution was drafted quickly and announced within a year and a half, and a new election was called in late 2008. Although Dr. Thaksin’s party again won the general election and was able to form a new democratic government, the political conflicts

were not solved, and political chaos and turmoil continued. When the Democrat Party, the opposition party, won the support of renegade party of Dr. Thaksin's coalition to form a new government in late 2008, political conflicts switched side, eventually ended in the government crackdown of the protest in May 2010 which resulted in a number of deaths. A new election in 2011 saw another victory of Dr. Thaksin's party, this time with his sister, Ms. Yingluck Shinawatra as the leader and the next prime minister. Several dangerous policies of her government, especially the rice subsidy policy that cost the country huge losses, brought another huge and persistent political protests and conflicts. Again, the military intervened to avoid another bloodshed, and installed itself a military government in May 2014 where it remains in power today. Although a new constitution of 2017 has already been enacted, and a new election is scheduled at the end of 2018 the trouble does not seem to die down yet, and this is something I would like to discuss in this section.

In a nutshell, Thailand has changed from a promising 'Fifth Tiger' of East Asian Economic Miracle in the early 1990s (following the four 'Tigers' that had attained the status of newly industrialised economies or NIEs earlier, namely Hong Kong, Singapore, South Korea, and Taiwan), to a country that started a regional economic crisis in 1997, a massive political polarisation in the early 2000s, a decade of unending political conflicts in mid-2000s, and an uncertain political future today.

But to have a cursory judgment on the current status of a country without concrete statistical evidence could be unfair. So, I took a task of finding out some statistical indicators that show Thailand's standing in the world community at present, and compare them with those of selected East and Southeast Asian countries of comparable size or level of development, in order to see how Thailand has performed in the last several years. There are of course close to a hundred indicators that depict the comparative status of a country in the world community,<sup>2</sup> but I would only choose four groups of more well-known and more prevalent ones. These four groups of indicators are:

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<sup>2</sup> See, for example, List of International Rankings in Wikipedia.

1. Development Indicators consisting of Human Development Index of the United Nations Development Programme (UNDP) and Global Competitiveness Index of the World Economic Forum (WEF);
2. Transparency Indicators consisting of Corruption Perception Index (CPI) by Transparency International (TI) and the Control of Corruption Index in the Worldwide Governance Indicators by the World Bank;
3. Democracy Indicators consisting of Index of Democracy by the Economist Intelligence Unit (EIU) and the Freedom in the World Index by Freedom House Organisation; and
4. Justice Indicator consisting of Rule of Law Index and Factors Determining Rule of Law Index by the World Justice Project (WJP).

And the selected East and Southeast Asia to be used in this paper are China, Japan, and South Korea in the first group, and Indonesia, Malaysia, the Philippines, Thailand, and Vietnam in the second group.

As mentioned earlier, in Chapter 11 of this volume entitled *The Political Economy of Growth in Developing East Asia: A Thematic Paper*, I have described and analysed the patterns of growth of most East Asian economies from the post-war period to the end of the 20<sup>th</sup> century. The readers of this chapter should be informed about how the growth of these countries and economies started and continued in their development paths, and can make a relative comparison among these countries. For example, we all know that Japan was the first industrialised, and most developed, economy in East Asia in the post-war period, to be followed by the 'Four Tigers' countries mentioned above in the late 1970s, and the so-called ASEAN-4, namely Indonesia, Malaysia, the Philippines, and Thailand which aspired to follow suit in the 1980s. The remainder countries in Southeast Asia were even grouped in what is known in the previous United Nations classification as 'Least Developed Countries'. We can now compare these countries using Tables 1 to 8 in this paper.

Tables 1 and 2 show two aspects of development, the overall, critical human development as shown by the Human Development Index (HDI) and the combined macroeconomic and microeconomic performance as shown by the Global Competitiveness Index (GCI). From Table 1, it may be seen that in 1990, HDI of Thailand at 0.574 was lower than that of the Philippines at 0.586 but greater than Indonesia and China. In 2015, 25 years later, Thailand has surpassed the Philippines, but with China catching up to almost the same level of human development. In this regard, Thailand is doing reasonably well in Southeast Asia but not as well as China. Philippines seems to be the worst performer of all in the region, with HDI in 2015 even lower than that of Indonesia and Vietnam. However, since inequality in Thailand is greater than most countries in the list, the inequality-adjusted HDI had made the situation in Thailand worse than that of China, which, overall, is doing very well in in IHDI (even better than South Korea).

As an open market economy, Thailand should do well also in global competitiveness. This is true as seen in Table 2 where 12 elements or conditions of the country are used to rank the overall competitiveness of the country. In 2017/2018 where the latest Global Competitiveness Index (GCI) is available, Thailand's GCI was 4.72, higher than most other selected ASEAN countries, but lower than Malaysia, South Korea and China. The comparison with China is, again, very interesting. China is a socialist economy that adopts mainly capitalistic ways of economic development which relies on price and production competition. China's GCI is 5.00 in 2017/18, higher than that of Thailand, and ranks 27 compared to Thailand's rank of 32. In all, Thailand is not doing too badly economically, but paled by comparison with the overall performance of China.

In the second set or series of indicators where anti-corruption achievements are used to rank the transparency situations of these countries in the list, Table 3 has shown that China, despite its being traditionally perceived as a highly corrupt country, is doing quite well in its efforts to rid the country of this lack of transparency image. And

although the rank of 79 in 2016 is still far below the top rank transparent country, Denmark, China's rank has improved from 100 in 2014 and 83 in 2015. All other countries in East and Southeast Asia in the list are also doing well in their improvements of the CPIs. Only Thailand is the worst performer in this regard, with the CPI dropping to 35 in 2016 from 38 of the year earlier, and the rank worsen from 76 to 101. Thailand's CPI in 2016 is now worse off than that of Indonesia, which in 2006 ranked 73 places below Thailand, and now excels over Thailand in 2016.

The general picture on the lack of governance and transparency in Thailand is confirmed in Table 4 which shows the World Bank's Worldwide Governance Indicators from 2006 to 2016. The Control of Corruption Index in this series ranges from +2.50, the most successful control of corruption to -2.50, the least successful control of corruption. Worldwide average is of course zero, which Thailand has never achieved. The index for Thailand is always in the negative region. In the last 10 years before 2014, the Control of Corruption Index for Thailand averaged about -0.34. In the last 3 years, from 2014 to 2016, however, the index had worsened to the average of -0.45, with the highest level of (lack of) control of corruption in 2015 at -0.49. Again, China and Indonesia have shown to do better than Thailand in their control of corruption in 2016. Even Vietnam whose index is more than twice lower than that of Thailand in 2006 (-0.74 for Vietnam compared to -0.34 for Thailand), had improved its control of corruption to -0.40, the same level of Thailand, in 2016.

The third group of indicators is on democracy development. Two indicators are chosen here: the Index of Democracy by the Economist Intelligence Unit (EIU) and the Freedom in the World Index by Freedom House Organisation. In Table 5, which shows the Index of Democracy of the eight countries including Thailand, we can see that the status of democracy according to the framework of the EIU in the eight East and Southeast Asian countries is compared between two years, in 2007 and 2016. In both years, Thailand is classified as Hybrid Regime in the Type of Democracy which is one rank better than the worst form of democracy

in this set up (the worst is Authoritarian Regime). This can be looked upon as a consolation in spite of the fact that Thailand has been governed by an unelected military government since May 2014. The same was true in 2007 when another unelected, military-backed government also ran the country. The only two countries with Authoritarian Regime status are China and Vietnam, whereas all the rest were classified as Flawed Democracy (even Japan and South Korea in 2016). It is obvious that full democracy in the Western framework and concept is hardly practised in East and Southeast Asia.

Apart from this overall description of the type of democracy, the EIU also shows the level of democracy in an index which ranges from 0, complete lack of democracy to 10, full democracy. From Table 5, it may be seen that, in 2016, Japan has the highest score of 7.99, followed by South Korea with 7.92. Thailand's Index of Democracy in 2016 is 4.92 which is lower than those of other ASEAN countries in the list, except for Vietnam which is classified as Authoritarian Regime. This score is lower than the one for 2007 (at 5.67), indicating obviously that the level of democracy in Thailand fell between 2007 and 2016. Also as Authoritarian Regime, China has the lower score of 3.14 in 2016, which is understandable, but it shows a slight improvement in democracy from the level of 2.97 in 2007.

This Index of Democracy shown in Table 5 is a composite score that is derived from five conditions that define full democracy. These five conditions include (1) electoral process and pluralism; (2) the functioning of the government under democratic agreements and processes; (3) existence of political participation; (4) development of political culture; and (5) existence and practice of civil liberties. A series of questions are prepared for each of these conditions, and the responses will generate scores that measure the comparative extent of democracy. For example, the score for electoral process and pluralism is highest at 9.17 for South Korea and the Philippines in 2016, whereas Thailand has the score of 4.50, and China and Vietnam have the same score of zero on this condition of democracy. And so on.



Table 6 shows another result of democratic development of Thailand and other selected East and Southeast Asian countries. This time it is the Freedom in the World Index produced by the US-based Freedom House Organisation. With a definition of democratic freedom that is narrower than that of the EIU's Index of Democracy, the Freedom in the World Index, however, shows a similar result. For example, the aggregate score that reflects popular representation (PR) and civil liberties (CL) is highest for Japan at 96 in 2017, followed by South Korea at 82. The score of Thailand is quite low at 32, compared with 44 of Malaysia, 63 of the Philippines, and 65 of Indonesia. Again, only China and Vietnam have lower Freedom in the World aggregate scores than Thailand, and the three countries together, China, Thailand, and Vietnam, are the only countries in the list that are classified as 'Not Free' in Freedom Status.

Finally, Tables 7 and 8 show the result of the Justice Indicators from the surveys for the Rule of Law Index by the US-based World Justice Project (WJP). In order to measure the existence of the rule of law which is one of the most important conditions of sustainable development of any country, the researchers of the WJP drew up a list of 8 conditions or factors that define or determine the existence of the rule of law. These 8 conditions or factors are:

1. Constraints on Government Powers;
2. Absence of Corruption;
3. Open Government;
4. Fundamental Rights;
5. Order and Security;
6. Regulatory Enforcement;
7. Civil Justice; and
8. Criminal Justice

In Table 7, the weighted average of all measures of these eight conditions or factors is shown as the Rule of Law Index with the score ranging from 0, complete lack of the rule of law, to 1, the most desirable state of the rule of law. In 2016, the Rule of Law Index for Thailand is

0.51, the same with the Philippines and Vietnam, but behind Indonesia and Malaysia. Japan and South Korea of course have the highest Rule of Law Index of 0.78 and 0.73, respectively, and China, as one might expect, has the lowest Rule of Law Index among the group. As for its global rank, Thailand ranks 64 in 2016, dropping 8 places from the global rank in 2015. In Table 8, the scores and ranks of all 8 factors determining the overall rule of law for all selected countries are shown. Here we can examine the performance of each country with regard to each particular factor such as constraints to government powers (Factor 1), or Absence of Corruption (Factor 2), and so on. For example, Thailand ranks quite low on Constraints on Government Powers (only China ranks lower), reflecting a relatively greater tendency for the government to abuse or overstep its power. Its rank on Fundamental Rights (at 88) is also quite low, but the rank on Regulatory Enforcement (at 56) is best.

In all, it seems from these 8 tables that Thailand is only doing well with regard to its economic development as measured by Human Development Index and Global Competitiveness Index, while the performances in the other three groups of indices, anti-corruption efforts, democracy status, and existence of the rule of law are weak in comparison with other comparable countries in East and Southeast Asia. Thailand has now become a new ‘Sick Man of Asia’. And unless we see normal political development in Thailand in the next year or so, this sickness is likely to continue.

#### **4. Where Are We Heading?**

As I said earlier, most papers in this volume were written in the decade that started around mid-1990s, and ended around mid-2000s. These were great years for Thailand, but it is unfortunate that we had experienced what I would call ‘The Thaksin Phenomena’ which brought all the excitements and promises to most Thai people in the beginning in the year 2001, but had gone awry and turned bad. To me, these were the major causes for all the economic, political, and social ills of Thailand

in the last ten years. It is the ‘Lost Decade’ that virtually stops Thailand from meaningful growth and development.

Who is, or are, to blame for this? Certainly, Dr. Thaksin himself must take some of the responsibilities, but others must also share these responsibilities. Despite his good intentions for the Thai people, Dr. Thaksin violated the most fundamental rule of public good governance the first day he became a political office holder, that is, to commit conflict of interest between personal gains and public duties. He should not have been allowed to remain in his political office when he was found to have concealed his wealth ownership and management in contravention of the existing law when he became the country’s prime minister in 2001. But then the judgment to allow him to stay in power came from the 15-member Constitutional Court decision with a single majority vote in his favour. In this case, this Court must be responsible for all the goods and bads that come with Dr. Thaksin 10 to 15 years down the line as well.

This is not the place to discuss the goods and bads that Dr. Thaksin had contributed to his country; I have done many of these discussions and analyses elsewhere.<sup>3</sup> Suffice it to say that these Thaksin Phenomena had polarised Thailand into passionate Pro-Thaksin and Anti-Thaksin factions with little else in between. These two factions, in different names, guises, forms, and occasions have fought it out in various ‘battle fields’ to the serious detriments and damages of the country. And no end is in sight yet.

To me at least, the military coup that toppled Dr. Thaksin’s government in 2006 was unnecessary as the political situations surrounding Dr. Thaksin’s government in the latter part of 2006 had become untenable to a functioning government, and a regime change was inevitable. And this could take place within a normal political

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<sup>3</sup> See, for example, Medhi (2001, 2002, 2004, and 2013). The conference papers and research report written in 2002, 2004, and 2013, are being published in a volume entitled “Reflections of the Thai Economy and Society”, by the Graduate School of Development Economics, National Institute of Development Administration (NIDA), 2018.

and/or judicial frameworks. The situations in 2014 when the Yingluck government was already judicially removed from office were similar in that judicial solutions could be, and should be, allowed to continue to work instead of a military intervention. But while military rationale is reasonable and indeed acceptable at the time, political development in the post-coup periods from May 2014 to the present is something that does not auger well for Thailand in its international standing.

There are several reasons why the present military government under General Prayuth Chan-Ocha is not doing something right. First, unlike most other governments in the post-coup periods which were normally civilian-based but with the military providing political support in the background, Prayuth's government is truly military government when various military people have left their military expertise and become politicians and public administrators. Three years in power, military personnel can be found, not just in political positions, but in many government and public offices and administration as well. This is of course unnatural and inefficient, and could hurt political culture and participation of Thailand or Thai democracy in the future. Second, the military government already stays in power for too long. They did not have to rush for the political change like the 2006 post-coup situations, but the intention must be to leave the power as quickly as possible rather than to prolong in power as long as possible. To me, the decision to enact law to force strategic planning for the country 20 years ahead was unnecessary and without much meaningful merits. A market-based economy like Thailand does not need this kind of economic planning, as an astute adherence to non-distortionary market principles and only necessary social public-welfare interventions would be enough as guiding principles. The right or correct answer the question about political future of Thailand is not to weaken any branches of governance or government, but to design a system that allows each branch to perform its role efficiently and effectively, within strong conditions of checks and balances in the principle of the separation of powers. Third, the general economic policy of this government has a ring of marketing-oriented,

populist-leaning flavour similar to the Thaksin's regime decade earlier. This is for a palliative, not long-term, solution to the economic problems of the country.

This view of mine could be in a minority, as even the World Bank which is a neutral and trusted development organisation is happy about the present policy of the Thai military government (See Box 2). There are detractors and critics of the present Thai government of course, and they should be listened to. For example, Thomas Fuller of the New York Times who worked for many years in Thailand, wrote in November 2015 that despite its booming tourism, Thailand is in a rut where its economy is moribund and Thai households are among the most indebted in Asia (Fuller, 2015). He further said that:

“Thailand was once the torchbearer of freedom and prosperity in Southeast Asia — a center of commerce for Indochina, a bastion of free expression and a home for refugees from neighboring countries, which for years Thais saw as war-ravaged basket cases. But these days when Thais look to their neighbors, they feel envy, not pity”.

We can only hope that the new election scheduled in late 2018 will return Thailand to its normal route of the country's economic and political development. Anything less than this is certain to condemn Thailand to remain in the depth of its development quagmire.

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### **Box 1: SOM Steering Committee on Economic and Technical Cooperation**

APEC members engage in economic and technical cooperation to facilitate the development and implementation of measures that promote trade, investment and sustainable growth, bridging gaps in their level of development and available resources.

The APEC Senior Officials' Meeting (SOM) Steering Committee on Economic and Technical Cooperation (SCE) coordinates and manages the APEC members' economic and technical cooperation (ECOTECH) agenda, which is outlined in the Osaka Action Agenda. In 1996, an APEC Framework for Strengthening Economic Cooperation and Development was adopted to guide members in implementing the Osaka Action Agenda.

The objectives of the SCE are to

- Support implementation of APEC's ECOTECH activities by prioritizing work based on the commitments made by Leaders' and Ministers, and overseeing the work of APEC fora
- Provide policy guidance on ways to contribute to APEC's ECOTECH goals
- Coordinate ECOTECH objectives and priorities between the APEC Economic Leaders' Meeting and the APEC ministerial meetings

In 2010, Senior Officials endorsed a new Framework to Guide ECOTECH Activities for APEC-funded capacity building and all ECOTECH activities. This framework adopted a holistic approach by



- Revising APEC ECOTECH priorities
- Introducing a uniform set of criteria for all project funding, where funding is based on the link between proposals and APEC's core objectives

Within this framework, the following medium-term ECOTECH priorities are established for the period of 2015-2019:

*Cross-cutting priorities*

- Developing human capital through capacity building
- Developing and strengthening the dynamism of SMEs
- Harnessing technologies for the future and supporting innovation
- Inclusive growth—addressing the social dimension of globalization, health, gender

*Workstream priorities*

- Regional economic integration
- Structural reform
- Safeguarding the quality of life through sustainable growth
- Human security

These medium-term priorities will be reviewed again in 2019.

*Additional Background on SCE:*

The SCE was first established as the SOM Sub-Committee for Economic and Technical Cooperation in 1998. In 2002, the sub-committee was elevated to the SOM Committee on Economic and Technical Cooperation. In 2005, the ESC was strengthened and transformed into the SOM Steering Committee on ECOTECH (SCE).

In 2012, the SCE conducted an internal review of its working mechanisms and new terms of reference was endorsed and reconfirmed in 2016.

Last page update: 25 July 2017

## **Current Activities**

### **Development of a new system to assess SCE Fora**

In 2016, the SCE decided to develop a new system to assess SCE fora. This new system will develop a detailed standardized program for assessments in 2017, which covers but is not limited to

- A set of indicators to assess the performance and governance of the fora
- A survey questionnaire template
- A possible scope of survey
- A list of useful information and data for the assessment
- The methodology of processing such data
- A reporting template

The annual assessments of 2018 will be conducted by an assessment team comprising the representatives from the preceding, current and next year's SCE chairing economies—as well as any other volunteering economies and with assistance from the Secretariat. Assessments will be based on the data and information produced through the standardized program for a group of SCE sub-fora, pursuant to their terms of reference and the decisions of the SCE.

The SCE expects strengthened follow-ups on recommendations by the assessment team. An optional comprehensive fora review

after a full cycle of assessments of all fora will also contribute to the sound management of the whole organizational structure of the SCE's subfora.

The APEC Secretariat has engaged a contractor to develop the standardized system. Their work plan was approved by the SCE during its first meeting in March.

### **Promotion of cross-cutting agenda**

The SCE and the APEC Secretariat have been facilitating cross-fora collaboration through the SCE Committee of the Whole (COW), through the Lead-Shepherds and Chairs' Meeting, through a cross-cutting map of initiatives, and through identifying areas to create synergies for cooperation.

The SCE has continued its exploration of additional measures to promote such collaborations. These efforts came to fruition when the third meeting of the SCE decided to take concrete steps to promote cross-cutting agendas such as

- The more efficient use of SCE COW gatherings
- The promotion of various IT facilities
- A request for considering premiums for cross-fora projects
- The continued encouragement of cross-fora meetings and cross-fora participation

The SCE and the SOM also extended the mandate of the Mainstreaming Ocean-related Issues Steering Council by two more years, till 2018.

**Source:** APEC Secretariat Office

**Box 2: World Bank's View on Current State of Thai Economy**

- Over the last four decades, Thailand has made remarkable progress in social and economic development, moving from a low-income country to an upper-income country in less than a generation. As such, Thailand has been one of the widely cited development success stories, with sustained strong growth and impressive poverty reduction, particularly in the 1980s.

Thailand's economy grew at an average annual rate of 7.5% in the boom years of 1960 to 1996 and 5% following the Asian financial crisis during 1999-2005, creating millions of jobs that helped pull millions of people out of poverty. Gains along multiple dimensions of welfare have been impressive: more children are now getting more years of education, and virtually everyone is now covered by health insurance while other forms of social security have expanded. After average growth slowed to 3.5% over 2005-2015, with a dip to 2.3 % in 2014-2016, Thailand is now on the path to recovery. Growth is projected to reach 3.5% in 2017 and expand further to 3.6% in 2018.

Poverty declined substantially over the last 30 years from 67% in 1986 to 7.2% in 2015 during periods of high growth and rising agricultural prices. However, poverty and inequality continue to pose significant challenges, with vulnerabilities as a result of faltering economic growth, falling agricultural prices, and ongoing droughts. As of 2014, over 80% of the country's 7.1 million poor live in rural areas. Moreover, an additional 6.7 million were living within 20% above the national poverty line and remained vulnerable to falling back into poverty. Although inequality has declined over the past 30 years, significant and growing disparities in household income and consumption can

be seen across and within regions of Thailand, with pockets of poverty remaining in the Northeast, North, and Deep South.

The rate of economic recovery and reigniting growth will depend on how fast Thailand can address structural constraints to growth, while promoting inclusion. There are opportunities in the horizon, including improving the business regulatory environment, expanding trade through enhanced integration with the global economy, bolstering growth by implementing transformative public investments to crowd-in private capital, stimulate domestic consumption, and improving quality of public services across the entire country. This will support a resumption of a higher, more balanced, growth path that eliminates poverty and boosts shared prosperity for all citizens.

Thailand has laid out its long-term economic goals in its 20-Year National Strategy (2017–2036) for attaining developed country status through broad reforms. The reforms address economic stability, human capital, equal economic opportunities, environmental sustainability, competitiveness, and effective government bureaucracies. Recent reforms include the implementation of large multi-year public infrastructure projects related to dual tracking of railways, regulatory reforms aimed at improving ease of doing business, setting up the State Enterprise Policy Committee to improve state-owned enterprise governance, the transfer of supervisory oversight of specialized financial institutions to the Bank of Thailand, the approval of progressive inheritance and property taxes, and the launch of the National Savings Fund, a retirement safety net for informal workers.

Going forward, the sustained pace and quality of reforms, as well as sound implementation, will be crucial for translating the reform effort into the desired economic outcomes. Reversing the relative erosion of competitiveness, improving effectiveness of the public sector, and improving education and skills will be particularly important to take Thailand out from middle to high income status. The World Bank supports of the reform agenda.

**Source:** World Bank, Bangkok Office, Overview, last update September 2017.

**Table 1:** Human Development Index of Selected East Asian Countries

Country	Year					Annual rate of HDI Improvement			Inequality-Adjusted HDI (IHDI) 2015		
	1990	2000	2010	2015	Rank 2015	1990-2000	2000-2010	2010-2015	Score	Overall Loss (%)	Rank change
East Asia											
China	0.499	0.592	0.700	0.738	90	1.72	1.70	1.05	n/a	n/a	n/a
Japan	0.841	0.856	0.884	0.902	17	0.51	0.31	0.44	0.791	12.4	-8
South Korea	0.731	0.820	0.889	0.901	18	1.15	0.76	0.77	0.753	16.4	-19
SE Asia											
Indonesia	0.528	0.664	0.662	0.689	113	1.36	0.92	0.78	0.563	18.2	+9
Malaysia	0.643	0.725	0.774	0.789	59	1.20	0.67	0.39	n/a	n/a	n/a
Philippines	0.586	0.622	0.669	0.682	116	0.60	0.72	0.39	0.556	18.4	+8
Thailand	0.574	0.649	0.724	0.740	87	1.25	1.03	0.56	0.586	20.8	-5
Vietnam	0.477	0.576	0.655	0.683	115	1.92	1.29	0.85	0.562	17.8	+9

**Sources:** UNDP, *Human Development Reports* (various years)

**Note:** Human Development Index (HDI) is a composite index of 3 indicators that capture three elements of human development according to UNDP. These three elements are (1) longevity as measured by life expectancy at birth; (2) knowledge as measured by years of schooling; and (3) economic well-being as measured by gross national income per capita. It ranges from 0, the lowest level of human development, to 1, the highest level of human development.

Inequality-Adjusted HDI (IHDI) is a further refinement of HDI by taking into account the distributive effects of inequalities that change the size of original HDI.

**Table 2:** Global Competitiveness Index (GCI) of Selected East and Southeast Asian Countries

Country	Year							
	2007		2010-2011		2016-2017		2017-2018	
	Score	Rank	Score	Rank	Score	Rank	Score	Rank
East Asia								
China	4.17	34	4.84	27	4.95	28	5.00	27
Japan	5.43	8	5.37	6	5.48	8	5.49	9
South Korea	5.40	11	4.93	22	5.03	26	5.07	26
Southeast Asia								
Indonesia	4.24	54	4.43	44	4.52	41	4.68	36
Malaysia	5.10	21	4.88	26	5.16	25	5.17	23
Philippines	3.94	71	3.96	85	4.36	57	4.35	56
Thailand	4.70	28	4.51	38	4.64	34	4.72	32
Vietnam	4.04	68	4.27	59	4.31	60	4.36	55
No. of countries		131		139		137		137

**Sources:** World Economic Forum (WEF), *Global Competitiveness Reports*, various years.

**Note:** Global Competitiveness Index (GCI) is a composite index computed from a set of 12 conditions or ‘pillars’ that portray the competitive characters of a country. These 12 pillars include (1) institutions, (2) appropriate infrastructure; (3) a stable macroeconomic framework; (4) good health and primary education; (5) higher education and training; (6) efficient goods markets; (7) efficient labour markets; (8) developed financial markets; (9) the ability to harness the benefits of existing technologies; (10) market size both domestic and international; (11) production of new and different goods using the most sophisticated production processes; and (12) innovation. This GCI, therefore, measures the ability of countries to provide high levels of prosperity to their citizens. It ranges between 0, the lowest level of competitiveness, to 1, the highest level of competitiveness (or highest level of prosperity).



**Table 3:** Corruption Perception Index of Selected East and Southeast Asian Countries

Country	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Score											
East Asia											
China	3.3	3.5	3.6	3.6	3.5	3.6	39	40	36	37	40
Japan	7.6	7.5	7.3	7.7	7.8	8.0	74	74	76	75	72
South Korea	5.1	5.1	5.6	5.5	5.4	5.4	56	55	55	54	53
SE Asia											
Indonesia	2.4	2.3	2.6	2.8	2.8	3.0	32	32	34	36	37
Malaysia	5.0	5.1	5.1	4.5	4.4	4.3	49	50	52	50	49
Philippines	2.5	2.5	2.3	2.4	2.4	2.6	34	36	38	35	35
Thailand	3.6	3.3	3.5	3.4	3.5	3.4	37	35	38	38	35
Vietnam	2.6	2.6	2.7	2.7	2.7	2.9	31	31	31	31	33
Rank											
East Asia											
China	70	72	72	79	78	75	80	80	100	83	79
Japan	17	17	18	17	17	14	17	18	15	18	20
South Korea	42	43	40	39	39	43	45	46	43	43	52
Southeast Asia											
Indonesia	130	143	126	111	110	100	118	114	107	88	90
Malaysia	44	43	47	56	56	60	54	53	50	54	55
Philippines	121	131	141	138	134	129	105	94	85	95	101
Thailand	63	84	80	84	78	80	88	102	85	76	101
Vietnam	111	123	121	120	116	112	123	116	119	111	113

**Source:** Transparency International (TI), *Corruption Perception Index (CPI)* (various years).

**Table 4:** Control of Corruption Index in Worldwide Governance Indicators of Selected East and Southeast Asian Countries

Country	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Score											
East Asia											
China	-0.57	-0.59	-0.54	-0.54	-0.60	-0.55	-0.48	-0.35	-0.34	-0.28	-0.25
Japan	+1.32	+1.21	+1.31	+1.37	+1.57	+1.57	+1.61	+1.65	+1.69	+1.57	+1.51
South Korea	+0.28	+0.52	+0.37	+0.48	+0.40	+0.46	+0.47	+0.55	+0.55	+0.37	+0.37
SE Asia											
Indonesia	-0.81	-0.58	-0.56	-0.82	-0.75	-0.68	-0.66	-0.62	-0.56	-0.46	-0.39
Malaysia	+0.25	+0.28	+0.02	-0.03	+0.13	+0.05	+0.30	+0.41	+0.41	+0.24	+0.11
Philippines	-0.81	-0.70	-0.75	-0.77	-0.80	-0.70	-0.58	-0.40	-0.44	-0.45	-0.53
Thailand	-0.34	-0.36	-0.42	-0.28	-0.32	-0.29	-0.34	-0.33	-0.45	-0.49	-0.40
Vietnam	-0.74	-0.64	-0.73	-0.53	-0.63	-0.61	-0.56	-0.53	-0.44	-0.43	-0.40

**Source:** World Bank *Worldwide Governance Indicators* (various years).

**Table 5:** Index of Democracy of Selected East and Southeast Asian Countries

Country	Type of Democracy	Rank	Score	Characteristics				
				I	II	III	IV	V
2007								
East Asia								
China	Authoritarian regime	138	2.97	0.00	4.64	2.78	6.25	1.18
Japan	Full democracy	20	8.15	9.17	7.86	5.56	8.75	9.41
South Korea	Flawed democracy	31	7.88	9.58	7.14	7.22	7.50	7.94
Southeast Asia								
Indonesia	Flawed democracy	65	6.41	6.92	7.14	5.00	6.25	6.76
Malaysia	Flawed democracy	81	5.98	6.08	5.71	4.44	7.50	6.18
Philippines	Flawed democracy	63	6.48	9.17	5.36	5.00	3.75	9.12
Thailand	Hybrid regime	90	5.67	4.83	6.43	5.00	5.63	6.47
Vietnam	Authoritarian regime	145	2.75	0.83	4.29	2.78	4.38	1.47
2016								
East Asia								
China	Authoritarian regime	136	3.14	0.00	4.64	3.33	6.25	1.49
Japan	Flawed democracy	20	7.99	8.75	8.25	6.67	7.56	8.82
South Korea	Flawed democracy	25	7.92	9.17	7.50	7.72	7.50	8.24
Southeast Asia								
Indonesia	Flawed democracy	48	6.97	7.75	7.14	6.67	6.25	7.06
Malaysia	Flawed democracy	65	6.54	6.92	7.86	6.11	6.25	5.59
Philippines	Flawed democracy	50	6.94	9.17	5.71	7.24	4.38	8.24
Thailand	Hybrid regime	100	4.92	4.50	3.93	5.00	5.00	6.18
Vietnam	Authoritarian regime	131	3.38	0.00	3.21	3.69	6.88	2.94

**Source:** The Economist Intelligence Unit (EIU), *Index of Democracy* (various years).

**Note:** The five characteristics of democracy are: (I) electoral process and pluralism; (II) functioning of the government; (III) political participation; (4) political culture; (5) civil liberties.

**Table 6:** Freedom in the World Index of Selected East and Southeast Asian Countries

Country	PR	CL	Aggregate Score	Freedom status	Freedom of the press
East Asia					
China	7	6	15	Not Free	Not Free
Japan	1	1	96	Free	Free
South Korea	2	2	82	Free	Party free
Southeast Asia					
Indonesia	2	4	65	Partly free	Partly free
Malaysia	4	4	44	Partly free	Not free
Philippines	3	3	63	Partly free	Partly free
Thailand	6	5	32	Not free	Not free
Vietnam	7	5	20	Not free	Not free

**Source:** Freedom House Organisation, *Freedom in the World 2017*.

**Table 7:** Rule of Law Index of Selected East and Southeast Asian Countries

Country	2015		2016	
	Score	Rank	Score	Rank
East Asia				
China	0.48	71	0.48	80
Japan	0.78	13	0.78	15
South Korea	0.79	11	0.73	19
Southeast Asia				
Indonesia	0.52	52	0.52	61
Malaysia	0.57	39	0.54	56
Philippines	0.53	51	0.51	70
Thailand	0.52	56	0.51	64
Vietnam	0.50	64	0.51	67

**Source:** World Justice Project, *Rule of Law Index (2015 and 2016)*

**Table 8:** Factors Determining Rule of Law Index of Selected East Asia and Southeast Asian Countries (2016)

Factor	China		Japan		South Korea		Indonesia		Malaysia		Philippines		Thailand		Vietnam	
	Score	Rank	Score	Rank	Score	Rank	Score	Rank	Score	Rank	Score	Rank	Score	Rank	Score	Rank
1. Constraints on government powers	0.38	104	0.74	21	0.68	27	0.64	33	0.50	78	0.59	51	0.47	82	0.49	81
2. Absence of corruption	0.52	52	0.83	13	0.65	35	0.38	84	0.61	39	0.48	56	0.47	61	0.45	67
3. Open government	0.44	89	0.68	21	0.68	22	0.58	37	0.35	105	0.51	63	0.52	57	0.43	92
4. Fundamental rights	0.32	108	0.75	23	0.70	32	0.52	74	0.44	98	0.50	83	0.47	88	0.54	68
5. Order and security	0.76	41	0.90	9	0.83	23	0.73	55	0.82	26	0.67	77	0.70	64	0.79	35
6. Regulatory enforcement	0.45	80	0.82	10	0.75	17	0.51	53	0.47	74	0.51	55	0.50	56	0.43	91
7. Civil justice	0.52	62	0.82	6	0.81	8	0.43	92	0.56	49	0.45	87	0.53	59	0.47	80
8. Criminal justice	0.47	55	0.68	21	0.71	17	0.38	80	0.56	41	0.36	84	0.41	59	0.50	51

**Source:** The World Justice Project - Rule of Law Index, 2012 - 2013, 2016

